



EC, GERMANY AND EGYPT

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Preface

The seminar of the "EC, Germany and Egypt" that took place in Abu Sultan (Egypt) from October 6th to October 8th, 1993 touched upon very important and crucial issues. Organized by the Center for Political Research and Studies, Cairo University, and the Friedrich-Ebert-Foundation, Cairo, it aimed at familiarizing the interested Egyptian and Arab public with the ongoing European unification process and the impact of German unity on this process with special emphasis on relations between the EC and Egypt as well as Germany and Egypt. It was attended by European and Egyptian diplomats, scholars and researchers, journalists and businessmen.

The quality of the papers presented and the high level of the discussion persuaded the organizers to issue a publication to make the results of the seminar available to a broader public. The publication includes the papers and the gist of the discussion as well as some other related useful information.

Of course this publication reflects the problems and difficulties of a certain historical moment. From hindsight some opinions and statements may look blazed or exaggerated. In this, the book will become in itself some kind of a historical document.

At the time the seminar took place, the very process of European unification seemed to be in trouble, the treaty of Maastricht being accepted by a lot of people in Europe only with an obvious lack of enthusiasm. German unity is still being felt by some to be potentially cumbersome. The effects of European Union and German unity on the outside world are still open and in development.

Those in Egypt and in the Arab world who want to enhance their knowledge about Europe will find in this book many questions and, yes ... some answers. The same is true for those Europeans who want to know more about how European policy is reflected on this southern rim of the Mediterranean, especially in Egypt. Again, the Arab world and Europe are economically and politically closely interwined, something they always have been.

This publication is dedicated to those whose purpose is to strengthen these ties across the Mediterranean.

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ONE

INTRODUCTION

1 Introduction

Dr. Wadouda Badran

The Center for Political Research and Studies is keen on following up and pursuing research regarding particular issues in an effort to attain an accumulation of knowledge regarding them.. Within this context the Center and the Friedrich Ebert Foundation, Cairo had organized two seminars on Egypt and the EC during 1990 and 1991. The first seminar focused on evaluating political and economic relations between both parties up to 1988. It also addressed the implications of Europe 1992 for the Egyptian economy. The second seminar focused on changes in Europe (internal changes in the EC, changes in Eastern Europe, German Unification), Egyptian foreign policy toward the EC (Egyptian objectives), the EC and regional conflicts in the Middle East (Arab-Israeli, Lebanon, Gulf) and economic relations between Egypt and the EC (Investment, Technology transfer, Agriculture, Textile, Aluminum). Papers presented at both seminars were published in two books by the Center.

In an effort to address some of the research questions raised at the previous seminars and focus on other relevant issues in Egyptian European relations, the Center for Political Research and Studies and the Friedrich Ebert Foundation, Cairo organized in October 1993 a third seminar entitled "EC, Germany and Egypt". It addressed three themes, the EC in a new world order, the EC and the Middle East, and Egyptian-German relations. Papers presented at the seminar are published in the book.

Four papers were discussed within the context of the first theme, "The EC, and Maastricht: Problems and Prospects", "The EC, Europe and the end of the Cold War", German Role within the EC and the EC, US and Japan". Dr. Eberhard Rhein, addressed the EC and Maastricht: Problems and Prospects. His presentation described Maastricht treaty as the second substantive amendment to the 1957 Rome Treaty. In analyzing the fate of the two main issues outlined in Maastricht, Dr. Rhein pointed to the problems which faced European Monetary Union

(EMU) and European foreign and security policy. However, he emphasized that such problems do not mean an end to the 30 year process of European integration. In this regard he explained the irreversibility of the European integration process. He also addressed the nucleus of a European foreign policy in the field of international trade. Within this context Dr. Rhein emphasized that other international actors should not draw the wrong conclusion in evaluating the process of European integration.

In his analysis of the EC, Europe and the end of the Cold War, Dr. Mustapha K. Al-Sayed explained that the end of the Cold War poses serious challenges for the EC, such challenges are not only due to the nature of EC relations with the socialists countries but are also due to the implications of the end of the Cold War for the EC's future drive towards integration. Thus his examination of the relationship between the EC and its regional environment starts by scrutinizing the state of the European project itself. This is followed by a focus on EC relations with its neighbors and the available institutional framework to conduct its multifaceted relations with them.

Dr. Guntram von Schenck addressed Germany role within the EC. His paper reviewed EC relations with East Germany before unification and its role during and after this process. In analyzing the interactions between a unified Germany and the EC, Dr. von Schenck addressed two issues: the impact of German unity on the balance inside Western Europe and German unification as part of the overall global transformation due to the fall of the Soviet Union and its empire. In dealing with the first issue he reviewed the relevance of a unified Germany's population and German-French differences. In his focus on the second issue he reviewed the following: a) The inability of Europe to solve the crisis in former Yugoslavia; b) Differences within the community after the developments in Eastern Europe, on whether to focus first on strengthening the community through more integration or enlarge it by admitting new members; and c) How will Germany react towards the transformation of Europe after the breaking of the Soviet Empire.

Dr. Hala Seoudi presented a paper entitled "The EC, US and Japan". Several questions were raised in the paper: Is the international system heading towards multipolarity? Will relations between the major powers be based on the rules of balance of power? What will be

Europe's role in this context and how will it make use of the new developments and the new system in order to improve and strengthen its position vis-à-vis the US and Japan? What will be the prospects of its relations and alliances with both. These questions were addressed in two parts, the first discussed the relative power of EC, US and Japan and the shaping of a new international system and the second discussed the relations between the EC and the other two powers, their problems and prospects.

In addressing the second theme of the seminar four papers were presented: EC and the Southern Mediterranean (1991-1993), The EC and the Arab-Israeli Peace Process (1991-1993), The EC and Gulf Security and the Political Economy of EC Relations with the Gulf States.

The paper which addressed EC relations with the Southern Mediterranean was presented by Dr. Mostafa Elwi Saif. He argued that changes at the global level, within the community and in the Southern Mediterranean region have not had a fundamental impact on EC's policy towards the Southern Mediterranean region. In his analysis Dr. Saif reviewed the above mentioned three groups of changes. He then presented a brief historical review of the EC Mediterranean policy. Finally, Dr. Saif focused on the adaptive nature of the EC's new Mediterranean policy within the context of the global, regional and internal environments.

Dr. El-Mashat's paper attempted to analyze the role of EC in the peace process during the period 1991-1993. Two main points were addressed in the paper, the determinants of EC's within the peace process and the major aspects of the EC's role in the process. In addressing the first, Dr. El-Mashat dealt with the structural determinants which limit EC role in the peace process: a) The change in the structure of the international system; b) The linkage between the Gulf Crisis and the peace process; c) The change in the future of Germany; d) The Maastricht Treaty; and e) George Bush's initiative in the Middle East peace process. In trying to understand the role of the EC in the peace process, Dr. El-Mashat focused on four dimensions: bilateral talks 1991-1993, multilateral negotiations 1992-1993, bilateral interactions with Israel 1975-1993, and the Palestinian-Israeli accord and the construction of a peaceful environment, 1993.

Dr. Ahmed Youssef focused on a study of the EC and Gulf security. In his analysis he outlined that despite the EC's vital interests in the Gulf, a number of constraints make its role a marginal one. In substantiating such a conclusion his paper dealt with EC interests in oil and Gulf markets. His analysis of the constraints facing the EC role in the Gulf included international and intra-EC constraints. The paper finally addressed elements of the current EC policy where Dr. Youssef analyzed the extent of its coherence, its comprehensiveness, EC interest in the non-military dimensions of Gulf security and its conception of the role of external actors in attaining such security.

Dr. Saleh Al-Mani's study focused on analyzing the development of economic and political relations between member states of the EC and countries of the GCC since the mid eighties up to the early nineties. In understanding such a development, Dr. Al-Mani addressed two main issues. The first dealt with the setting of economic relations between the two blocks where he reviewed their trade relations, investment flows and military sales. Dr. Al-Mani then analyze the EC tariffs and the imposition of the carbon tax which might impair the Gulf states' ability to sustain their current economic growth and the current state of political and social stability.

Two papers were presented within the context of the third theme addressed at the seminar: Egyptian-German relations. Dr. Khalda Shadi dealt with an analysis of this relationship in the field of aid, while Mr. Azer Farag Azer focused on their relations in the field of trade and investment. The first paper presented an overall view of the main features of the German development policy. Such features included: a) The complimentary nature of German assistance; b) Its priorities which include combating poverty, protection of the environment and meeting the challenges posed by population growth; and c) Assistance is carried out by both the German government and private institutions. Dr. Shadi then analyzed the case of German-Egyptian cooperation. In this regard she focused on the volume of cooperation and its areas of concentration. In the conclusion the paper dealt with number of remarks concerning the significance of German aid for Egyptian development and factors which might affect the continuity of such aid.

Mr. Farag Azer's presentation focused on German-Egyptian relations in the field of trade and investment. In analyzing trade relations he emphasized the downward trend in the volume of overall

trade between both countries since the mid eighties. He reviewed developments in both Germany and Egypt which were responsible for such a trend. He then moved to a more detailed focus on each country's exports to the other, where he addressed three issues, their rank among all exporters to each country, their volume and structure. In discussing German investment in Egypt Mr. Azer outlined the factors conductive to foreign investment in Egypt and whether Egypt realized its objective in attracting foreign investment.

In discussing the above mentioned papers five issues were raised at the seminar. The first two dealt with the frame of reference and concepts used in the analyses. The third focused on how to understand the process of integration, the fourth pertained to the role of values in governing interactions and the fifth related to research questions which need to be tackled and substantiated in future research.

In addressing the frame of reference, discussions at the seminar emphasized that we can not go on thinking of EC relations with the world within the context of paradigms and theories that dominated our thinking during the Cold War period. In particular it was emphasized that it would be difficult to understand such relations if we try to study them within the context of power and balance of power theories. Changes in the world thus require that we use other frames of reference in understanding such phenomena.

Several questions were raised concerning some of the concepts used in analyzing EC, Germany and Egyptian interactions. Notable among them during the discussions that took place were the concepts of system, power and sovereignty. While there was general agreement at the seminar regarding the concept of system, the debate focused on whether we could speak about a European regional system or not. Some participants believed that we can not speak about a European regional system. A system according to this point of view has to have a boundary, but such boundaries are quite vague in the case of Europe. A second point of view outlined that Europe does constitute a system and that the interactions that take place within it are greater than the interactions between it and other parts of the world. The concept of power was also the subject of intensive discussion. Participants debated the elements of power, i.e. military, economic ... They also emphasized the difficulties of understanding military power in view of the changing nature of nuclear threat, the growing importance of peace

keeping forces and the changing nature of threat in the international system. Participants also discussed whether we should speak about poles in a world characterized by a change in the nature and distribution of power. The concept of sovereignty was also discussed. Questions were raised as to whether we can speak about sovereign states within the context of the globalization process that is taking place in the world.

The third issue raised during the discussions pertained to how can we understand the process of European integration. Three issues were raised in this regard: a) At the theoretical level it was emphasized that in understanding such a process we have to differentiate between factors conductive to integration and those which sustain the process; b) We have not understood well the magnitude of the globalization process and how things are no longer decided only on the regional level, a matter which might slow down the EC integration process; and c) In understanding the problems and prospects of EC integration we should not only focus on the problems which the EC has encountered. More attention has to be devoted to the accomplishments of the EC in this regard. A focus on problems only tends to overshadow the significant steps that have been taken so far. If EC countries differ over some issues we should understand such differences as a recurrent pattern in inter-state interactions. In other words discussions emphasized that we should try to avoid exaggerating the significance of differences between EC countries for the future prospect of EC integration.

The fourth main issue raised during the discussion of the papers presented at the seminar pertained to the role of values in governing interactions. Here there were differences of points of view between some of the Arab and European participants regarding the role of values governing EC behavior towards two issues: EC and democracy and EC and Iraq. While Some Arab participants were critical of Europe's position regarding developments in Russia, the European participants defended such a stand on the ground that democracy is not defenseless. There was also debate concerning EC position towards Iraq. Some Arab participants were critical of Europe's position regarding the territorial integrity of Iraq and sanctions imposed on Iraq. European participants on the other hand emphasized that EC policy

was in-line with genuine concern for the Iraqi people and their human rights.

The final issue revealed by the discussion is the need to tackle and substantiate some research questions in order to reach a further understanding of two main topics: EC relations with the Southern Mediterranean and German aid to Egypt. Suggestions referred to the imbalances of perceptions between the EC and its Southern Mediterranean neighbors, environmental cooperation between them and the "why" and "so what" questions which relate to Germany's aid to Egypt.

TWO

THE EC AND MAASTRICHT: PROBLEMS AND PROSPECTS

2 The EC and Maastricht: Problems and Prospects*

Dr. Eberhard Rhein

On February 7, 1992, the Heads of State and Government of the 12 EC Member States signed the Treaty on the European Union, commonly called "The Treaty of Maastricht". At that time the EC looked good and was full of political and economic hope after the reunification of Germany and the breakdown of the Soviet Union.

Twenty months after that historic date the situation in Europe looks very different. Again there are signs of Euro-pessimism. There is much more uncertainty about Europe's future. The economic situation is in shambles, with the worst recession the EC has witnessed since its creation in 1958. Almost 12 million unemployed are witnessing the gravity of the economic and social situation, as many hundreds of European companies, small and large, some of them even with illustrious names are being shaken up.

What has happened and what is going to happen?

The Maastricht Treaty is a very strange document. It is certainly not easy reading, not even for students of public and institutional law. The Treaty is not the constitution of the future Europe - far from it! In legal terms, it is the second substantive amendment to the 1957 Rome Treaty, instituting the European Economic Community. It is a long document - 253 pages in its printed version - almost as long as the Rome Treaty itself. Its essence can be summed up in two words:

- European Monetary Union (IMU)

* At the Seminar, this paper was presented by Mr. Daniel Giuglaris, Economic Advisor, Deputy Head of Mission, Commission of the European Communities, Cairo.

- European Foreign and Security Policy

These are indeed the two major innovations and the two pillars on which big hopes for a new order of European integration were based in early 1992.

What followed was a series of disappointments. Indeed, in 1992 and 1993, instead of reaping success on those two fronts (as it had done in the preceding years with the completion of the Internal Market) the EC has been truly unsuccessful.

- In the monetary field. Instead of further monetary stability and convergence on basic macroeconomic indicators (inflation rates, public sector deficits, interest rates), the EC has witnessed two major rounds of unfortunate monetary disturbances, in September 1992 and in august 1993.
  With the consequences that the forerunner to the European Monetary Union, i.e. the European Monetary System, had temporarily to suspend its stringent exchange rate stability rules and admit fluctuations of exchange rates of 30 percent instead of 4.5 percent hitherto).
- In the filed of foreign policy, the EC has - unfortunately - proved unsuccessful in its first major test of common foreign policy, i.e. in the former Yugoslavia.

Of course, the Maastricht Treaty was not yet in force, but still the European performance, in particular the lack of unity, has been shaming and it has left a very deep and lasting negative impression on public opinion at home and outside Europe.

Add to this the incapacity of the EC to come to grips with the most immediate and most severe challenge, i.e. with its mass unemployment (in particular the millions of unemployed aged less than 25 years) and you will understand that the image of the European Community has suffered a series of heavy blows since our Heads of State and Government put their signature to the Maastricht Treaty.

Does all this mean an end to the 3 year process of European integration? Does this mean, as some people seem to imply, that Europe will go back to the pre-World War II order of rivaling national states? I do not think so.

Of course, nobody can doubt that the EC has suffered quite a severe set-back and we have not yet recovered from that blow. There

is, therefore, an understandable uncertainty when it comes to looking ahead and providing guidance for the future.

So, let me make a few remarks on how I see the European future evolving from now until the end of this century:

1- The process of European integration is an irreversible one. There is no setting back of the clocks to the year 1945, let alone 1933. None of the European countries, not even Germany, is big enough to face the future in isolation. Only jointly can they shoulder the challenges of the next century and these challenges are not to be taken lightheartedly.
2- As always during the 40 years of European integration, there will be periods of high and low spirits. Those who have been following European affairs long enough, therefore, look at our present troubles with sufficient equanimity so as not to be excessively excited about them.
3- It will take the European countries quite some time and also quite some internal and external pressure to finally accept that there is no other way in the long term but to build a loosely-knitted federation which will at least need central powers in the fields of central banking and macroeconomics on the one hand and foreign and security policy on the other hand.
4- There is, therefore, whatever negative signals we may receive from some capitals, no alternative to going ahead with building the EMU, i.e. a fully-fledged European central bank system and a single currency. Of course the process will be long; of course some Member States may initially decided to opt out, but by the end of the century Europe will be well advanced in that direction. This, incidentally, entails nothing more than the implementation of the Maastricht Treaty.
5- The same goes for a European foreign and security policy. Can anyone really imagine that there is a future for a Danish, Italian or even German foreign policy in the next century, when the world population will be tending towards 9 billion people and when new superpowers will enter the international scene (e.g. China, Brazil, India or Indonesia)?

The Europeans, therefore, will have no choice but to construct a common foreign policy. This will require, and sooner rather than later, that decisions, even in that field, will have to be taken by majority rule

and no longer by consensus and it will equally require that there is something like a European Foreign Ministry, the nucleus of which has just been set up in Brussels within the EC Commission (with all the pains that any birth gives rise to).

There is a nucleus of European foreign policy.

The EC has a single line as far as international trade negotiations go, whatever the clamors in our various national capitals. Europe has a clear policy as far as its EFTA and Eastern European neighbors are concerned. We want them to gradually become members of an enlarged, but also strengthened, community.

The EC has no less a vision for its relations with our southern neighbors in the Mediterranean and the Arab world. We want them to become internally stable, democratic and relatively prosperous societies and we are prepared to see to it that there is a close and friendly relationship with the Maghreb and the Mashrak countries.

1- The EC has declared its willingness to enter into Association Agreements with the Maghreb. The EC Commission has recently also proposed negotiating an Association Agreement with Israel, which would, in particular, provide for a very close link-up in the field of scientific cooperation and would provide for liberalization in fields like services and public procurement.

2- As part of its overall policy towards the Mashrak, the Commission has also put forth to the Council a comprehensive paper setting out its views of the region, underlining in particular the need for the Mashrak countries and Israel to get thoroughly involved in regional cooperation, including setting up a Middle East Free Trade Area (NEFTA). Some of you will remember that these ideas were discussed in March of this year in a meeting in Cairo. In this context, it goes without saying that the Commission has also suggested updating the 1973 Cooperation Agreements which presently link Egypt, Jordan, Syria and the Lebanon to the EC.

Even if we are far from a common European foreign policy, there are already, as of now, more common lines and actions than most people are aware of and, indeed, nobody can still really speak of a purely national foreign policy for any of the Member States.

So, in conclusion, the Maastricht Treaty is an important milestone on the path towards ever-growing European unity. The morose situation which we have been going through since the middle

of 1992 will one day only look like an intermezzo on a long rocky road.

In assessing its own future policy, Egypt should not, therefore, be misled into wrong conclusions. Egypt's future, as seen from a Brussels perspective, will be, of course, first of all in the region, where Egypt will in the future interact much more than in the past; but secondly in Europe, with whom it will become progressively more and more closely associated, to the mutual benefit of both sides.

THREE

THE EUROPEAN COMMUNITY, EUROPE AND THE END OF THE COLD WAR

3 The European Community, Europe and the End of the Cold War

Dr. Mustapha Kamil Al-Sayed

Introduction

Many observers had believed that the end of the Cold War was a blessing for the European Community, since it coincided with the disintegration of its rival bloc in the East and a perception of the dawning of a new era of peace and prosperity in the continent which would remove all obstacles against further integration in the community and its enlargement to include a larger part of Europe.

However, such an optimistic expectation about the impact of the end of the cold war on the European community should be radically revised, for it seems now that such an event, far from constituting a blessing for the community, is forcing the EC to face serious challenges, not only in terms of its relations with former socialist countries to the East, but even with respect to the impetus and the drive for further integration within the community itself, as it stood in December 1991, when its twelve members signed the Maastricht Treaty calling for the creation of monetary and political union at the end of the twentieth century.[1]

An examination of the relationship between the EC and its regional environment will have therefore to start by scrutinizing the state of the European project itself as it stood in the early 1990's knowing what the community is striving to achieve for itself is a prior condition for understanding how it deals with its numerous neighbors and grasping the magnitude of problems it is having with them.

Difficulties of the European Project

The presence of a perceived "Soviet threat" and the fear of a militarist Germany were the most important driving forces for the establishment of the European community, starting with the European Community for Coal and Steel, the Treaty of Rome in 1957 and ending with the Single European Act of 1987. However, once the "Soviet threat" has receded with the collapse of communist regimes in Eastern Europe, the disintegration of the Soviet Union itself and political instability in Russia, a major driving force for European integration has been lost and German militarism, after nearly five decades of peaceful relations between Germany and her neighbors, was not taken seriously enough, particularly by young Europeans born after the war, to compensate for the erosion of a "Soviet Threat".

It is true, on the other hand, that the European community took advantage of the new situation in Europe in the aftermath of the disintegration of the Socialist bloc to launch its ambitious scheme for a monetary and political union as envisaged in Maastricht, to be realized at the end of the twentieth century. However, the lack of an incentive for integration, namely facing the Soviet "threat", made the cost of further integration seem formidable and not worth the sacrifice to the public opinion in countries like Denmark, France, Great Britain and even Germany, as demonstrated by the difficulty of ratifying the Maastricht Treaty in all these countries.[2]

It should be pointed out also that critics of the Maastricht Treaty were not short of arguments on the cost of monetary and political union in the community. The crisis of the European Monetary System in 1992, caused by the failure of major central banks in Europe, particularly in Great Britain and Italy, to keep fluctuations of the rate of exchange of their currencies vis-à-vis the Deutschmark within the limits of the European exchange Mechanism, forced the community to widen the margin of fluctuations, and to accept withdrawal of both Britain and Italy from the European Monetary System. This crisis convinced many in the community that it would be unrealistic to seek the establishment of a monetary union, requiring the use of one currency or aligned currencies and creation of a European central bank before the end of the century. This crisis convinced public opinion in most member countries that the cost of such union would be high, as it

would require adherence to monetary and fiscal policies which would make it difficult for these countries to get out of recession or deal effectively with an unemployment situation that started to assume alarming dimensions. Divergences among community members over the war in the Gulf, and the Yugoslav crisis made them realize also that the move to political union in Europe, coordinating their foreign and security policies and leading to a common defense policy, has to await better times, even if it were to be seen as desirable by the majority of them, which is not necessarily the case.

Relations with Community Neighbors

It should be stressed that the community lacks an overall vision of how to conduct its relations with other European countries. This major handicap is due, among other things, to differences among leading members over the type of larger entity they would like to see in Europe. Both Germany and United Kingdom are in favor of enlarging the community, even though such enlargement would dilute its character. The British government in particular would like more countries to join the community precisely for this reason. The German government believes that the new members would be countries already closely tied to the German economy. The widening of the community would enhance therefore German influence in Europe in general. France, on the other hand would prefer to maintain the character of the community as a homogeneous and closed club. The French government is probably concerned that its diplomacy would be less efficient in a larger gathering.[3]

However, there are already many countries in Europe which aspire towards membership of the community, and it would be difficult for her to put off consideration of their application. Conditions for membership are met at present by some of these countries, are less so in another group and are completely absent in a third group. Each of these groups therefore poses particular problems for the community.

The first group consists of Nordic and Central European countries, former members of the European Free Trade Area (EFTA), who are at present part of the European Economic Area, and who applied already for membership, namely Sweden, Norway, Finland and Austria. However, integration of these countries in the community

poses political, cultural, financial and institutional problems. How to coordinate policies among sixteen countries, if it proved to be troublesome to coordinator policies among twelve countries? There are also observers who are apprehensive about the political culture of such countries marked by traditions of neutrality, with the exception of Norway, and Protestant ethics, whereas members of the community at present are all NATO members and have strong Catholic cultures. The level of subsidies in these countries is far higher than the prevailing in the community, which means that wealthier members of the community would have to pay the cost of maintaining subsidies in the candidate countries or reduce aid to poorer countries. Finally, the weighted voting system of the community would have to accommodate the new members, and this might upset the delicate balance between big countries and small countries in the community. Would such accommodation be possible within the present structure of community institutions, or would it have to be altered in order to facilitate such accommodation?

The second group of countries who have partially fulfilled membership requirements are Mediterranean countries, namely Turkey, Cyprus and Malta. It does not seem that there are major objections to the admission of Cyprus and Malta. As for Turkey, its admission poses a major problem for the community, since it is not only a non-Catholic country, but it is also non-Christian, as nearly all its citizens are Muslims. Rather than voicing this implicit religious condition for membership of the community, the community prefers at present to hide behind Greek objection to Turkey's admission. Admission of a new member must be unanimously approved by all governments of the community.

Finally, most countries of Eastern Europe, with the exception of countries of the Commonwealth of independent states, have expressed willingness to become full members of the community. Some of them have signed already association agreements with the community, notably Poland, Hungary, the Tschek and Slovak Republics, Rumania and Bulgaria. Being former socialist countries, some membership conditions have not been met by them yet. However, reluctance to admit such countries is fueled by their political instability and the enormous cost which would have to be borne by the wealthy members

of the community in order to bring them up to the community standards, particularly in terms of social welfare.

Whether such countries are admitted within the EC or not, they pose a major challenge to the EC. How to deal with a possible influx of refugees of work-seekers from these countries, or with ethnic conflicts which could erupt there similar to what has been raging in former Yugoslav Republics. The conflict in former Yugoslavia demonstrated the complete failure of EC to maintain peace at her borders, despite heavy involvement by the community in that quagmire.[4]

Institutional Framework

In dealing with her neighbors, the EC does not only lack a comprehensive vision, but she misses also an appropriate institutional framework to conduct her multi-faceted relations with them. The Conference on Security and Cooperation in Europe was envisaged once to be such a framework, together with the Council of Europe. However, both proved to be unworkable as proper fora for conducting relations with all these countries with their disparate conditions and preoccupations. The search for a proper institutional framework remains therefore one of the formidable challenges Europe is facing in the post-Cold War era.[5]

The difficulty of establishing this framework stems from the variety and complexity of relations, countries of the European community, named the European Union, following the entry into force of the Maastricht Treaty in October 1993, have with other European countries entertained (different types of relationships with the European Community). While some aspire for full membership in the near future, others like only to avoid the negative repercussions of the establishment of a single European market on their economies. A third group of countries in Eastern and Central Europe would like also to become full members of the community, but their political instability and their economic structures, still marked by decades of central planning and public ownership of the largest part of the economy, hope to get assistance from the community to enable them to qualify for its membership towards the end of the century. Some Mediterranean countries, namely Cyprus, Malta and Turkey would like also to join the

community, but while their applications have not been rejected, the prospects for even the start of negotiations on such issues seem to be uncertain at present. Thus, in terms of economic relations, the European Union finds itself confronting a variety of situations in Europe which have called for different institutional set-ups to deal with them. The specific ways in which the European Union is going to organize its relations with these countries is outlined in the following sections:

EFTA countries

The seven countries, members of the European Free Trade Area are the closest countries in Europe to members of the EU in terms of their economic and political structures, being all highly-developed countries with liberal political systems. However, judging the impact of the elimination of barriers on movements of goods, services, people and capital among countries of the EC to be negative on their economies, three of them have opted for full membership of the community, while others asked for a special economic arrangement to link them with the EC. Thus Austria, Sweden and Finland are going to start in 1994 formal negotiations aiming at their full integration into the European Union perhaps a year or two later, while the other four countries, Switzerland whose people have rejected EC membership in a referendum, Norway, Iceland and Liechtenstein will be integrated with countries of the European Union into the European Economic Area. Negotiations on the EEA started in June 1990 and were completed in February 1992. The EEA Treaty entered into force in January 1993. It is expected that the EEA will bring a fundamental change into relations between the community and EFTA members as its application requires the elimination, gradually, of all barriers on movement not just of goods but also of services, people and capital. EFTA countries will have to adopt the Community's legislation, subject to specific adaptations, transitional periods and - in some cases - derogations. An important provision in the EEA Treaty calls upon EFTA countries to guarantee equal conditions of competition throughout the EEA. In order to fulfill such condition, the EFTA countries will take over the Community's competition rules and create an independent EFTA surveillance authority and an EFTA court.

To supervise the implementation of the agreement, four bodies are envisaged, a council, and three committees of executive, parliamentary and consultative characters.

The EEA Council will be responsible for giving the political impetus and guidelines for the implementation and future development of the EEA agreement. Another body called the EEA Joint Committee is charged with the implementation of the agreement including taking decisions on the extension of new community legislation to the EEA. As its name suggests, this committee will include representatives of both the Community and the EFTA, and decision will be taken by consensus between the Community on the one hand and the EFTA states on the other.

Paralleling the structure of the European Union, an EEA Parliamentary Joint Committee will be also created, made up of equal numbers of members of the European Parliament and members of parliaments of the EFTA states. This committee may express views in reports or resolutions. It may also listen to statements delivered by the President of the EEA Council.

Finally an EEA Consultative Committee will bring together social partners, i.e. labor, business and governments in equal numbers from both the EC and EFTA. The Consultative Committee may express its views in the form of reports or resolutions.

It is obvious that EFTA members have to apply legislation of the EC without having any say on how it is initiated. Some of them found their membership in the EEA to be only a preliminary step or preparation period to enable them to join the Community fully later, whereas other are worried that membership in the community might carry political obligations or other commitments that they might not like to accept. Therefore, Norway, Switzerland, Liechtenstein seem to be satisfied at present with arrangements within the European Area.[6]

Former Socialist Countries in Eastern Europe

The Community has acted also as a role model for the "countries in transition" in Eastern Europe. Following the events in these countries in 1989-1990 which led to the fall of communist regimes and the emergence of new regimes committed to market economy and a multi-party system, several of the new governments expressed their wish to

adhere to the community. However, the Community judged their economic and political structures to be still inadequate for membership, but it accepted to offer them a wide range of financial and economic assistance, and it endeavored in particular to support transition efforts in these countries. It has taken immediate action to grant them better access to its market, to provide financial aid, to offer technical assistance and training, to facilitate foreign investment and to help clean up the environment. It sent also emergency food and medical supplies to some of them.

Initially, new trade and cooperation agreements were concluded with Poland, Hungary, Czechoslovakia, Bulgaria, Romania and the Soviet Union, but were found to be limited in scope. Therefore, the Community decided to negotiate with them for reaching European agreements, which would consist of four essential elements:

i) Free trade with the community;
ii) industrial, technical and scientific cooperation;
iii) a long term program of scientific cooperation;
iv) a mechanism for political dialogue.

According to Community sources, these agreements would constitute an end in themselves, not to be considered as a transitional phase on the road to EC membership, while not excluding the possibility of an associated country subsequently applying to join the community.

The association agreements will provide the institutional framework for a political dialogue between the community and each of its partners. It will enable views to be exchanged on urgent bilateral and multilateral issues.

Thus, a Council of Association will be created for each agreement in which the Community and individual partners will discuss and decide on issues of mutual interest. Besides, a structure will be created for cooperation between the European parliament and the national parliament of each associated country.

Some countries in Central and Eastern Europe, particularly those of Poland, Hungary and the Czech Republic are dissatisfied with these arrangements and would like to become full members of the Community. However political instability in these countries and the difficulties they are encountering in their attempts to move quickly to a capitalist economy are among the factors which make the Community

reluctant to envisage even the start of membership negotiations before the end of the century.[7]

Baltic and Balkan States

Despite a certain feeling of disappointment among countries of Central and Eastern Europe who have to wait perhaps till the end of the century before their membership in the community could be seriously considered, their position is definitely more advantageous in this respect than other countries in Europe who were also ruled by communist regimes, as the Baltic states and former Yugoslav Republics, for the Community is offering these countries only traditional trade and cooperation agreements. Authorities in the Community hope that such agreements will enable these countries to open their economies more gradually to the outside. Such objective is to be sought through promotion of mutual trade, granting these countries the most favored nation treatment, and removal by the Community of quota restrictions on imports from them.

The agreements call also for commercial and economic cooperation and the establishment of a joint committee as a forum for regular consultation.

The newly-independent states in the Balkan as well as Baltic countries accept such a status because the community assumes that once these agreements are in operation for some time, they could be upgraded to European Agreements similar to those concluded with countries of Central and Eastern Europe.[8]

Other European Countries

Finally, the timing of membership of some Mediterranean countries on the periphery of Europe, namely Turkey, Cyprus and Malta seem less clear. The three countries have applied for membership of the Community, but no date has been set for the start of formal negotiation on their integration into the Community. Cultural differences between Turkey and Christian Europe is probably the most important impediment for its acceptance as a full member of the Community. The partition of Cyprus into two states, one of which is Muslim explains perhaps the reluctance of the Community to envisage at present its integration into its own ranks. There are also economic costs to be borne by the Community if the three countries were to be

included among its members, since all would qualify for special aid programs, being considered as poor regions, competing for the Community's resources with its poorer members in Southern Europe.[9]

Foreign Policy and Security Matters

The Treaty on European Union called on member countries to strive to elaborate common foreign and security policy. The principles and general guidelines of the common foreign and defense policy will be defined in the European Council, which brings together heads of state and governments of members countries. It is expected that the present arrangement of foreign policy decision-making in the Council based on unanimity could change in future, with the European Council declaring that certain areas of the common foreign and security policy should be the subject of joint action. In such cases, the Council may rule that on specific issues, decisions can be made by qualified majority and do not require unanimity. Moreover, even when no joint action is agreed, the Member States are still required to coordinate their action and comply with the foreign and security policy of the Community. The first areas of joint action should be:

- The process of elaborating cooperation and security arrangements in Europe within the Conference on Security and Cooperation in Europe.
- The policy on disarmament and arms control in Europe.
- Non-proliferation of nuclear weapons.
- Economic aspects of security, particularly with regard to control of transfers of arms technology to third countries, and controls on export of weapons.

It should be noted that these areas of activity are to be extended, in the first instance, to include relations with countries of Central and Eastern Europe, particularly Poland, the Czech and Slovak Republics and countries of the Commonwealth of Independent States.

As for defense matters, the Treaty on European Union, which entered into force in October 1993, assigned a central place to the West European Union, so that it will become the major arm of the European Union in this respect.

The West European Union was established after the Second World War as a purely European support alliance, but it has been given

the function of the gradual elaboration of the European Community's security policy. It should develop and implement all decisions and actions of the European Union which have defense implications. The nine European countries members of the WEU agreed in a special declaration on a program of future cooperation stating that the WEU should become gradually the defense component of the European Union and strengthen the European pillar of NATO. They also agreed on a set of measures to facilitate cooperation. One of such measures was to transfer the seat of WEU Council and Secretariat from London to Brussels, the Community's headquarters. Another measure was to synchronize dates and venues of meetings of Community Foreign Ministers and the WEU Council in order to facilitate cooperation between the two organizations.

There are divergent views on the final objective of security cooperation among members of the European Union, and these divergences have shaped opposed views on the future role of the WEU, while some countries led by France envisage the WEU to be an instrument ensuring eventually an independent defense policy for Europe, other countries, led by the UK. and Germany, view the organization to be merely the European arm of NATO. Therefore, while Community members have decided to increase the military role of the WEU, they have also agreed to strengthen cooperation between the WEU and NATO. Thus, in order to achieve the first goal, they envisaged the setting up of WEU planning unit, intensifying military cooperation to complement NATO, particularly in the areas of logistics, transport, training and strategic surveillance, the holding of meetings between WEU Chief of Defense staffs as well as the building-up of military units. Moreover, the WEU Institute for Security Studies in Paris will become a European Security and Defense Academy.

Eliminating differences in membership of the WEU and European Union and NATO will contribute on the one hand to the fusion of the two purely European organizations and to closer cooperation with NATO. Thus, the nine EC countries members of the WEU invited the other partners - Denmark, Greece and Ireland - to accede to the WEU or to assume observer status and the non-Community European members of NATO - Turkey, Norway and Iceland - are to be brought closer to the WEU through associate membership.

The treaty establishing the WEU will expire in 1998. Until then some steps will be taken in the area of common foreign and security policy including a review conference attended by governments of member states in 1996 which would agree on a report evaluating progress made and experience gained during the coming years. The expire of the treaty establishing the WEU could mean that the WEIU would merge into the European Union with its own security policy.[10]

It is definitely too early to assess the prospects of the success of the European Union in elaborating a common foreign and security policy for its members. It is true that the celebratory summit of the Union held in Brussels on October 29th, 1993, after ratification of the Maastricht Treaty by Germany, the last country to do so, has decided that a common foreign and defense policy will be pursued "to enable the community to speak with a single voice and to act effectively in the service of its interests".[11] However, the correspondent of the Economist, who reported on such a meeting stated that not much of this has substance.

> "The commitment to a common foreign policy, for example, concentrated on the vague and easy: help for peace and 'democratic process' in Eastern Europe, Russia, the Middle East, and South Africa. For Bosnia, there was a separate annex, with a promise to use 'all appropriate' not quite the same as 'all necessary' means to get aid to the wounded and hungry".

Thus, the union is stuck in its first few months with a major foreign policy and security issue over which its members do not see eye to eye. Will it demonstrate more success in future in dealing with this and other issues. The challenges are enormous, but closer consultation is also likely.

Conclusion

The European Union faces its European environment with a complex European architecture. It has added to its own institutions i.e. the Commission, the Council, the European Parliament, the Economic and Social Committee, the Court of Justice and the Court of Auditors, other bodies to deal with several categories of European countries with

which it has varied relations, the European Economic Area's Council integrating members of the European Free Trade Area who might not like to join the Union in the near future, an association Council with each of the countries of Central and Eastern Europe who pin their hopes on joining the Community at the end of the century, a joint committee as a forum of regular consultation with Baltic countries and newly-independent states of the Balkan, together with association agreements with the three countries in the periphery of Europe, namely Turkey, Malta and Cyprus, to name just few of such institutions. As for foreign policy and security matters, they would be dealt with by both the European Council and the West European Union.[13]

It is quite a cumbersome European architecture which has moreover to coordinate policies and action of states with multiple cultures, historical traditions, national interests and opposed priorities. It is a big challenge to the European Union to ensure that all these institutions of the Eurocracy will wake smoothly in order to promote the European ideal. If the Union manages, despite divergent interest among its members to coordinate their policies and to speak on international issues with a single voice, it might perhaps succeeds in promoting some order into the larger European House. However, if events of the last four years are any indicator, it does not seem that such a job would be an easy matter. In this sense, it would be difficult to talk about a European order in the next decade, although a European system, or a regular pattern of interaction among countries of Europe, could gradually develop, shaped largely by policies and actions of the European Union.

Notes

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2. On the difficulties preceding ratification of the Maastricht Treaty by all European countries see Martin Feldstein. "Why Maastricht will Fail". The National Interest. Summer 1993, pp. 12-19.

3. On such divergences: Paul Marie de la Gorre. "Divergences Franco-Allemandes mises à nu". Le Monde Diplomatique. September 1993, pp. 10-11.
4. On all these difficulties André Riche: "L'élargissement de la Communauté Européenne en Question". Le Monde Diplomatique. Juin 1993, p. 3.
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6. Commission of the European Communities. The European Economic Area. The European File Series. Office of the Official Publications of the European Communities, Luxembourg, 1992.
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9. André Riche, op.cit.
10. On the West European Union see Commission of the European Communities. The European Union. Ibid, 1992, pp. 29-33.
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FOUR

THE GERMAN ROLE WITHIN THE EC

4 The German Role within the EC

Dr. Guntram von Schenck

German unification has been a major event in the history of the European Communities. When you speak about the German role within the Community, you would have to take this event into account.

Firstly, let's remember a few facts:

- Before German unification on October 3rd, 1990 GDR or East Germany was, so to speak a silent member of the EC. Intra-German trade was not considered to be trade with a non-EC member;
- this privilege was maintained even after the creation of the so-called single market for goods and services as the European market was opened to a certain extent to East German goods.

All this was before German unification.

Secondly, during the process of unification (autumn 1989, Summer 1990) the EC played a very positive role. Especially Jacques Delors emphasized the need not to make the Germans choose between European unity and German unity, but to support German unification. His view prevailed.

Thirdly, after unification the EC was extremely helpful when it came to integrate the former GDR into the EC, for example by allocating money to East German agriculture and industry to help them overcome some effects of German mismanagement during the uniting process. The EC agreed to give East Germany (former GDR) the status of a 'poor region', entitled to receive special allocations in the same way as Ireland, Portugal and Greece. The first impression the East Germans got of the EC was - for sure - positive and favorable.

We can conclude that the EC as an institution never opposed German unity. On the contrary, through 30 years of German division it

contributed to keep alive not only a fiction but a reality of German unity by integrating intra-German trade into the common market. The EC was extremely helpful as it smoothed out objections - and there were objections - put forward during the process of unification and as it helped facilitate the necessary transformations in East Germany after unification.

We can add: during the process of unification there was an overwhelming German consensus to push forward European unity and to work for a "European Germany" and not a "German Europe". This consensus still prevails. So we could stop here and confide in the future. But I am afraid it is not so easy ... for several reasons:

- German unity has changed the balance inside Western Europe;
- German unification has only been one part of an overall dramatic transformation that is due to the fall of the Soviet Union and its empire. Its consequences are still widely unknown.

Let's discuss these developments:

1) European unity before 1989 was built on a balance between three European powers: France, Britain and Germany - you might even include a fourth, Italy - who all had roughly the same size and population. Whereas Western Germany was the most dynamic country in the economic sphere, France remained the politically most important state in Western Europe. Britain had its special relationship with the US and - through the Commonwealth - still some kind of worldwide influence. France and Great Britain were atomic powers and permanent members of the UN Security Council.

Germany was in a special position. Being a divided country as a result of the Cold War, it had to rely profoundly on its partners to protect it and at the same time it needed to win back the international reputation it had lost in World War II. The European Communities offered the best means to pursue these goals. Through the EC France was able to maintain some kind of influence or control over West Germany to increase its weight in the international arena. Britain, after long years of hesitation, was desperately trying to join the club ... German unification changed this constellation completely. United Germany's population amounts to about 80 million, the population of France, Britain, Italy lies between 50 and 60 million, which is 20 million less. The unification process has weakened Germany

economically because of the enormous financial burden it has been imposing on the country (between DM 150 and 200 billion per year), but in the woes of the present it is not just a matter of optimism to predict a recovery and new dynamism. After another 5-10 years German economy will be even more predominant in Europe than it is already now.

Even more important: during the process of unification, Germany stripped off the last remnants of constraints resulting from the defeat and occupation after World War II. Germany is aspiring now to getting a seat as a permanent member of the UN Security Council.

May be the Germans sometimes rushed forward too fast and too briskly. Of course they met some mixed reaction from their partners in the EC since they were asking for an increased number of seats in the European Parliament corresponding to the higher German population. Until now France, Britain, Italy and Germany had equal number of seats. This obstacle has been overcome by now. But Germany suffered a clear defeat when it requested that the German language attain equal status in the European institutions as English and French. This request was rejected bluntly. So far, the Germans don't resent this too much. But the German government has made clear, that it will not accept - for example - an interdiction to European officials to use the German tongue in Eastern Europe.

As for the Maastricht Treaty, our distinguished guest, HE. Mcgeever, has talked about it in detail. The Maastricht Treaty has become the object of an overall public discussion revealing the difficulties and fractures after 89/90.

The German-French relationship, or "le couple franco-allemand", was at the very heart of the development of the European Community. The memories of millions of young men sacrificed in so many bitter wars, the alliance of mutual and corresponding interests generated the dynamism needed for building a new Europe after World War II. And if today you can employ the term "Europe" in a political way, which means that now it's more than just a geographic designation, it's thanks to Germany and France.

But never take something for granted. Today one of the basic mutual interests lies at the core of a deep and far-reaching dissent between Germany and France. At its beginning the European Community was designed to supply French farmers and agriculture

with a large protected market. The same was true for the German industry. In the GATT negotiations about to be concluded this year France has a vital interest not to give in to the US demands to open up the agricultural market of the EC and to stop export subventions. Germany's interests however are different. One fourth of its gross national product depends on industrial exports, thus it needs open markets worldwide. An EC protectionism will hurt Germany's economy badly.

It is not only dissent on the economic conception of Europe - protectionism versus open market economy - that undermines French-German friendship. The German Bundesbank policy of high interest rates, which is a consequence of the mismanagement of German unification process embitters France. With the French economy being in the throes of probably the worst economic recession since World War II, people in France get the feeling that they have to pay for German unity too, because according to the European Monetary System (Exchange Rate Mechanism) they have to accept the same level of interest rates as Germany or even higher ones, a matter which leads to recession and unemployment.

Former Yugoslavia is another point of dissent, I will deal with it later. Germany's candidacy to being a permanent member of the UN Security Council make things worse, because France is afraid of losing its political preeminence on the European continent. Since 1989/90 France finds itself in a completely new situation, and the French political class has not yet come to grips with it. But the same is true for the Germans. They have to take new responsibilities they are not prepared for. Very often they even don't understand French apprehensions. As a result, what we have now is a relatively open situation.

2) The fall of the Soviet empire in Central and East Europe adds more uncertainties. First of all the events in former Yugoslavia give an appalling picture of Europe's inability to solve a crisis when it might have been possible to solve it, to stop the open war, and develop a coherent plan to bring back peace to the Balkans. In the European newspapers you sometimes find Germany quite openly accused of following the old road of expansion in the Balkans, while France and Britain are said to be sticking too closely to their World War I ally Serbia - whatever the atrocities committed are. Sometimes you even

get the impression that each of these powers are suspecting each other of following a hidden agenda. No wonder that no workable solution is coming out of this mess. And the memories of the assassination of the Austro-Hungarian crown-prince in Sarajevo in 1914 that was committed by a Serb and triggered World War I are haunting the European capitals.

History, of course, doesn't repeat itself. The looming memories are even helpful as they prevent people from falling into the old traps. But the European Community's incapacity to defuse this war at its doorsteps illustrates how difficult it is going to be to formulate a common foreign policy as conceived by the Maastricht Treaty. Melting the different historical backgrounds, experiences and traditions and what are perceived to be the different national interests will be a hard and time consuming process. The war in former Yugoslavia reminds us that proclamations of intent are not automatically leading to the desired results. As long as Western Europe felt the common Soviet threat it was relatively easy to unite. The threat being gone Europe comes back to normal. But most people in Europe realize that there is no way back to the so-called 'normality' of the time before 1914. Since the beginning of the century Europe has gone through two terrible wars. No longer does it rule the world according to its own wishes. Other powers have emerged, and Europe is bound to be more marginalized if it doesn't succeed in overcoming its differences of opinion. But as long as the Balkan crisis is simmering, Europe's lack of a common political will fuels those fantasies that cling to the past instead of being oriented towards the future. The revival of nationalism that is shaking Central and Eastern Europe so brutally might affect the EC countries as well.

But there is more, the opening up of the Iron Curtain has given the EC two alternatives between which to choose: should it first strengthen the Community by more integration (French concept) or enlarge it by admitting new members (British view). In fact, this is an old discussion. But now that Poland, Hungary and the Czech Republic (and may be later the Baltic states) are applying to become full members of the EC, this choice is more dramatic. If those countries become full members, a more profound integration of all member states might become an illusion for many, many years to come. For that reason you find some hesitation in some EC countries. In Spain and

Portugal for example you may encounter people feeling that these Central European countries are very remote. In other countries you may even detect some kind of suspicion that those countries, that might enhance German dominance even more, are economically spoken, the German Hinterland. Considering that choice, Europe as a whole is at stake. For if Europe isn't able to live up to its political responsibility in Central and Eastern Europe, the consequences might be disastrous.

Looking more eastwards, Europe's destiny becomes even more misty. Nobody, so far, seriously proposed Russia and/or the Ukraine to become members of the EC. But Europe cannot be disinterested in what is going on there. By now you even find a widespread fear that the events in Yugoslavia are a foreboding of what might happen in the former Soviet Union, where some powers are even wielding atomic weapons. Even if this worst case scenario doesn't come true, the Western European inability to formulate a common policy and to stick to it in former Yugoslavia is casting doubts everywhere and is paralyzing the communitarian dynamism. What will happen though, if the economic disaster in Eastern Europe will unleash waves of refugees trying to find new homes and a better living in Western Europe? Look at the speeches of Western Europeans politicians, and you will find that this specter is already a motivation for decisions today.

On September 9th, 1993 the well known French newspaper "Le Monde" published on its front page an article of its former "redacteur en chef", Daniel Venet, in which he discussed the British public debate on the future of the EC. He sees two main opinions in Britain : 1) To enlarge the EC to a point where it becomes unclear what European integration could be. The EC would be reduced to a simple free trade zone; 2) to redefine Western Europe and to leave Germany and its Eastern neighbors with all their present and future problems out, and to come back to the old alliance of World War I: Great Britain, France and the US. From that point of view Germany is supposed to follow its historical instincts and build up its "Mitteleuropa" or Central Europe. Daniel Vernet points out that neither perspective is acceptable ... for France. Europe would possibly miss her last chance to assert herself in the post-Cold War world order. The relative influence of the European powers would decline even more.

But Daniel Vernet is absolutely right to conclude that the dramatic transformation of Europe after the breaking of the Soviet empire has completely changed the fundamentals in Europe. How will Germany react? How will it define its role and its interests? I think there are a couple of aspects, where a consensus in Germany has emerged:

- Germany wants to and will be part of the West, sharing fundamental ideas like democracy and human rights;
- Germany wants to and will be politically part of the West, being a leading member of NATO and the EC;
- Germany's goal is a comprehensive integration into the EC as a way to defuse the danger of being singled out or isolated due to Germany's relative power (economy and population). Germany is too strong compared with the other European powers, but not strong enough to be the hegemonial power in Europe;
- Germany advocates the admission of the Central European states of Poland, Hungary and the Czech Republic as full members of the EC (and possibly NATO) as soon as possible in order to stabilize democracy there, to develop their economies and to defuse the upsetting effects of rising nationalism;
- last but not least Germany maintains a special relationship with France. Germany and France will have to go together or they will go nowhere - and they will draw the rest of Europe with them, for the best or the worst.

But on both sides of the Rhine we know that we cannot take anything for granted. Sometimes to shake off the constraints of coordination, to drop the difficult task of balancing out the different interests looks like an easy way out. But it is a slippery way, without future.

Germany will continue to use all its weight to promote European integration; it is fighting for a democratization of the European institutions, and it is fighting to give Europe some kind of social identity. We are on the road of Maastricht - a road that is the right one - towards monetary union and political union. Germany will stick to it. But it will depend on the other nations too to make Europe a successful venture.

FIVE

THE EC, US AND JAPAN

5 The EC, US and Japan

Dr. Hala Seoudi

The international system is witnessing tremendous changes and developments. Such developments started with the collapse of the Soviet empire in Eastern Europe in the Autumn of 1989. The rapid decline of the Soviet Union put an end to the old bipolar system that had persisted for nearly half a century. However, this did not lead to the formation of a unipolar system dominated by the US. The US has witnessed deterioration in its economic power that puts its leadership into question. In the meantime, both Europe and Japan are rapidly emerging as new poles. This raises questions about the nature of the new developing international system. Is it heading towards a multipolar one? and will the relations between the major powers be based on the rules of the balance of power, where alliances tend to be specific, of short duration, and to shift according to advantage and not according to ideology?[1] And what will be Europe's role in this context and how it will make use of the new developments and the new system in order to improve and strengthen its position vis-à-vis the other two powers, i.e. the US and Japan? And what will be the prospects of its relations and alliances with both?

This paper will try to address these questions in two parts: the first part will discuss the relative power of EC, US and Japan and the shaping of a new international system, the second will discuss the relations between the EC and the other two powers, their problems and prospects.

I. The EC, US and Japan: The Shaping of a New International System

Since the course the new international system will take depends mainly on the distribution of the sources of power among the main actors, we will try first to analyze the relative power of EC, US and Japan before discussing the prospects for the shaping of the new international system.

1. The EC, US and Japan: Economic and Military Power

The following table summarizes the basic, military, and economic resources of the EC, Japan and the US.[2]

Basic, Military, and Economic Resources of the European Community, Japan and the United States, 1980s-1990s

	European Community	Japan	United States
Basic Resources			
Territory (percent of the world)	1.7%	0.3%	7.0%
Population (1987)	324 mil	130 mil.	244 mil.
Military			
Nuclear weapons (1990s)	1.200	0	25,000
Armed forces	2.6 mil.	0.24 mil.	2.2 mil.
Military Expenditure (World share, 1985)	10%	2.5%	30%
Economic			
GNP (1987)	$3.8 tril.	$2 tril.	$4.4 tril.
Share of world Exports	20%	10%	11%
Growth rate		2.7%	2.7%

Economic Power

The importance of both EC and Japan as emerging economic powers is beyond doubt. The EC resources are impressive. Although only a quarter of the area of the US, it has a population (324 million) comparable to that of the US (244 million) and twice that of Japan

(130 million). Its economy measured by GNP ($3.8 trillion) is larger than Japan's ($2 trillion) and only slightly smaller than that of the US ($4.4 trillion). Further, EC plays a larger role in world trade. Its share of world exports is 20 percent compared to the 10 percent and 11 percent share of both Japan and US respectively.

The most outstanding feature of the EC economy is the sustained and high level of economic growth. It is considered to be the fastest-growing region in the world, Japan excepted. Between 1950 and 1970 European gross domestic product grew on an average rate of about 5.5 percent per annum and 4.4 percent on a per capita basis, compared to world average rates of 5.0 percent and 3.0 percent respectively. Industrial production rose even faster at 7.1 percent compared to a world rate of 5.9 percent. Its share of world output of goods and services (GDP) rose from 37 percent to 41 percent, while in the case of industrial production the increase was even greater from 39 percent to 48 percent.[3] Inspite of the fact that EC is falling behind its US and especially its Japanese competitors in the high technology stakes of the future, it enjoys a strong competitive status in the industry of cars, planes, fighters, satellites, chemical industry, communication systems and financial services.[4]

In the 1980's the speculation has actually started about the possibility of EC being transformed into a new pole particularly when it declared its plan in 1985 to create a European Market by December 1992. In 1989 the EC committed itself to seek even deeper forms of integration and developed schemes for more radical innovations. These included a vaguely defined European Union (EPU), an Economic and Monetary Union (EMU), and a social charter.[5]

In December 1991 Maastricht Treaty was signed in an attempt to achieve more political and economic integration between the EC members. Such developments led most analysts to confirm the fact that as the EC becomes a single market and a monetary union as well by the end of the decade, it will eclipse the US as the world's largest economy.[6]

As for Japan, there can be no doubt that its economic transformation after 1945 is outstanding. It offers the most dramatic example of sustained modernization and it surpassed almost all of the existing advanced countries as a commercial and technological competitor.[7] A multitude of indicators prove this fact. The range of

manufactures in which Japan steadily became the dominant world producer is enormous. The Japanese GNP has grown at unprecedented rates and has always surpassed its other industrial competitors (almost 4 percent against 2.7 percent in the US). By the early 1990's Japan's GNP stood at $2.85 trillion accounting for 12 percent of world GNP.[8] It is thus considered to be the second largest economy in the world. According to many assessments, the Japanese economy is still likely to expand about 1½ to 2 percent a year faster than the other large economies (except China) over the next decades. It is for that reason that scholars argue that Japan will be the "number one" economy in the early twenty-first century, inspite of the fact that it possesses only 3 percent of the world population and only 0.3 percent of its habitable land.[9] It is worthy to note too, that by the early 1990's Japan's per capita GNP of $23.300 exceeded that of the US.[10]

On the other hand, US economic decline relative to EC and Japan is significant. The indicators for the change in US real position in the global economy are various. Since World War II, the American economy has grown more slowly than those of many of its major trade partners, and its share of global production and trade has steadily receded. In 1989-90, the absolute level of industrial investment in the US fell behind Japan. In many industrial sectors not only did the American share of global market drop, but so did American producers share of their own domestic market. In technology, American leadership, which seemed to secure, is now severely challenged and the US became a net importer of technology, whether through license, import of production equipment, or direct foreign investment.[11] Another symbol of US economic decline is the sudden shift of its position from the world's largest creditor to that of the world's largest debtor. That position will not easily be reversed especially with the US trade deficit which continues to add to the debt.[12]

Military Power

Inspite of their economic power, both EC and Japan are far from being military powers. Perhaps the most striking feature of Japan's power resources is its relative military weakness. During the post war occupation, the US introduced a constitution in which "the Japanese people for ever renounce war as a sovereign right of the nation". Ever since the Japanese government pursued a successful strategy of

remaining lightly armed, relying on an American security guarantee, and focusing on economic growth and exports. In the 1980's, Japan gradually increased its military posture, in part as a result of American prodding. Prime Minister Nakasone agreed to share military technology with the US, brought defense spending slightly above the 1 percent of GNP limit, announced Japan would be responsible for the protection of sea lanes out to 1,000 miles, and increased defense spending by nearly 6 percent per year. However, the actual forces remain modest, with a 150,000 person "ground self-defense force" and another 90,000 sea and air personnel.[13] It is not likely that Japan would double its military expenditure, and it is not likely either for Japan to develop nuclear weapons.[14]

As far as EC is concerned, its military power is far from negligible. The armed forces of the twelve European Community countries slightly outnumber those of US (2.6 million against 2.2 million) and are ten times larger than those of Japan. Both France and Britain possess nuclear weapons, and delivery systems - sea-based and lad-based. It is assumed that modernization of French and British nuclear forces will render about 1,200 nuclear weapons in the early 1990's. It is important to note that the EC's average spending on defense is 4 percent of the GNP, against 7 percent in the US.[15]

However, EC's real power and effectiveness in the world is much less than the total military strength would suggest - simply because of disunity. According to Paul Kennedy, the armed forces, for example not only suffer from a multitude of languages, but are equipped with many different weapons system and have very marked differences in quality and training, inspite of NATO's many attempts at standardization. But even those problems pale beside the obstacles at the political level, i.e. coordinating and evolving a unified European foreign and defense policy.[16]

2. EC, US and Japan: A New International System?

Regardless of their not being military powers, it is a fact that both EC and Japan are becoming world powers. This belief is based on the argument that the sources of power are, in general, moving away from the emphasis on military force and conquest that marked earlier eras.

As Joseph Nye puts it, factors such as technology, education and economic growth are becoming more important in assessing international power today, whereas geography, population and raw materials are becoming less important.[17]

The limits to the use of military force are various and have been profoundly analyzed by scholars of international politics. Interdependence is one of the main reasons discussed in this regard. The use of military force against developing nations has also became more costly for modern great powers due to the increased social mobilization in the developing countries, and the acquisition of sophisticated weapons capabilities by many of those countries. The changing concept of national security where threats have shifted from military to economic and ecological ones, and the changing goals of actors in world politics add more limits to the use of military force and make it insufficient to deal with the new issues in world politics.[18]

However, this does not mean that the use of military power is completely ruled out. Undoubtedly this is the case regarding the relations among great powers, where economic power is more important. As the cases of Grenada and Libya have shown, not all uses of force by great powers involve high costs.[19] In some cases, the stakes may justify costly use of force, the Gulf war is an example. In such cases, both EC and Japan lag much behind the US, although the EC is considered to be in a much better position than Japan.[20]

In trying to conclude the argument about economic and military power and the status of EC, Japan and US in the evolving international system, one has to consider four observations:

First: the US the first military world power could not afford the cost of the Gulf war without the support of both EC and Japan. The latter contribution in the war amounted to $13 billion. This confirms the importance of economic power and the inability of the US to use its military power without the support of its allies.[21] Accordingly, one may wonder to what extent this type of burden sharing will continue without the emergence of a new pattern of decision sharing to a degree which Washington has not so far expected.[22]

In this regard too, it is worthy to refer to the final report on the defense, industrial and technology base, prepared by the US Pentagon's Defense Science Board in October 1988. This report raised the issue of US defense being more dependent upon supply resources abroad

especially upon supply resources in Japan, i.e. Japanese electronic equipment particularly semiconductors.[23]

Second: One may add that the growing economic power of both EC and Japan will undoubtedly endow them with considerable leverage in their relationships with the US. Japan's investments in the US amount to more than $30 billion, and the Japanese capital finances 1/3 of the US budget deficit.[24] The surplus both EC and Japan enjoy in their balance of payments with the US is far from negligible.

Third: The sources of power in the evolving international system are diffuse. No one state acquires all sources of power. Accordingly, no one state enjoys hegemony, even the US. It might be the first among equals, but in some areas it is for sure not the first. EC and Japan are playing a leading role in the issues that do not need military power.

Fourth: It is on this basis that one can claim that the international system is heading towards a multipolar one. However, this emerging system is certainly different from the one that prevailed before 1914 in the sense that the powers in the new system do not have the intention of using military force against each other, i.e. the possibility of war between them is not existing.[25]

III. EC's Relations with US and Japan: Problems and Prospects

The EC's relations with both US and Japan are marked not only by cooperation and shared interests, but also by conflict and tension. Trade negotiations are not the only area of conflict between EC and the other two powers. There were tensions between EC and US on several security issues. The tensions over the appropriate policies to pursue in the Gulf crisis, and continuing differences of view about the changing nature of Eastern Europe and the former Soviet Union are but few examples. The EC's relations with the two powers will depend on the interplay of two variables: EC security problems on the one hand, and EC trade problems with both powers on the other.

1. EC Security Problems

Obviously this variable pertains only to EC's relations with the US. There is no doubt that the threats to EC security have changed.

The Soviet threat is gone and unlikely to return in the same form. An authoritarian resurgence in Russia is unlikely to pose a military threat to EC. Even if new figures in the Kremlin wanted to attack Europe, they would first have to rebuild at least some of the forces now being eliminated, to say nothing of getting the country's economy in shape for war and bringing the fractious nationalities to heel. At that point Russian forces would have to fight their way back across Eastern Europe. The West would be warned months before.[26] For at least the rest of the century the chief threats to Europe's peace and stability will stem from internal disorder rather than calculated decisions to commit aggression. Violence will most likely be sparked by tensions within and among the new democracies of Central and Eastern Europe, or the former Soviet Republics, fueled by ethnic conflicts, transition problems and economic reforms each of those countries undergo. EC countries are also increasingly concerned that the health and stability of their own societies may be threatened by terrorism and by massive immigration from North Africa, Eastern Europe and the former Soviet Union. It is worthy to note that Western military remedies will not be suitable in dealing with such threats. Political and economic tools will rather be more effective.[27] It is apparent that NATO and US military power are mismached with Europe's future security problems. Accordingly, unless NATO is transformed to accommodate to the new realities, the US risks losing its military leverage over Europe.[28]

However, none of this means that the need for US military power is over and that NATO is closing its doors. The Gulf crisis reminded Europeans that military power still matters. The war demonstrated that Europe alone, is incapable of dealing with many of the new threats,[29] although - as was mentioned before - the US could not accomplish its job in the Gulf crisis without the support of its European allies.

NATO will still preserve its importance. For many, it provides a continuing buffer against the nightmare of German neutralism or nuclearization,[30] and will remain useful for both EC and US as an integrated military structure and a forum for discussing all issues affecting common security. But adjustments should take place in EC's relations with US and NATO in order to accommodate to the new European needs and threats.

No one on either side of the Atlantic has straight and definite answers to how the EC-US relations will be. However, the US attitude towards the war in Yugoslavia shows that the Americans are playing less of a part in Europe's future than they have in the past forty years.[31]

In general, the future of the EC and US security relations will depend on two sets of factors: (a) factors relating to EC, i.e. the prospects for European Unity; and (b) factors relating to the US.

A. Prospects for European Unity

The EC-US relations over the next decade will depend on the power and purpose of institutions spanning the continent. A strong EC will allow Europe to deal with the US on a more equal basis.

There is no doubt that the EC has marched a long way in its integration process. However, this progress has been confined to the economic domain and is still confronting difficulties. At the political level, the problem is more acute. Although there has been some growth of European wide loyalties, it has not reached a level that can transform electoral and mass politics away from the separate national processes that exist today.[32]

In general, there are still obstacles to the accomplishment of a greater degree of political integration. A single European foreign or security policy remains a distant prospect,[33] and as Goldstein phrased it "a European defense identity remains an empty phrase".[34]

In October 1991, President Mitterand and Chancellor Kohl proposed a European force to be developed out of the existing 4,000 man Franco-German brigade. But the initiative was well short of a serious west European force. It stopped also short of proposing the sharing of nuclear weapons with Germany in a European army.[35] Besides it remains the object of suspicion among those Europeans who prefer an Atlantic rather than a purely European defense.[36]

The future of the West European Union (WEU)* and whether it should anchor itself mainly to NATO, leaving room for American

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1* WEU was formed in 1954 as an organization for West European cooperation in defense and security affairs that would work with but not be subsumed by NATO. The members of the WEU are the UK, France, Belgium, the Netherlands, Luxemburg, Italy and Germany.

leverage, or should ultimately be responsible to the EC, freezing Washington out, was the object of dispute among EC countries.[37]

It was well known that foreign and security policy was the most contentious issue in the preparation for Maastricht in December 1991. At Maastricht there was a compromise on both foreign and security policy. Foreign policy was left outside the formal community institutions, but members committed themselves to tighter cooperation; they can by unanimity, make a particular issue the subject of joint action. On defense, the WEU was labeled both the defense component of the EC and a way to strengthen the European pillar of NATO.[38]

B. Factors relating to the US

The future of EC's relations with US will also depend on the interplay of factors stemming from the US mainly US interests in Europe, and domestic political pressures and constraints.

The end of the Cold War did not eliminate US interest in Europe. The US has an interest in a stable Europe and in preventing conflict there from expanding to encompass great rivalry which could ultimately threaten the global balance of power. The US has an interest in facilitating the dual transition to a market economy and democracy in the former Soviet Union. It also has an interest in reassuring Germany about its security, thereby reducing future incentives for Germany to acquire nuclear weapons, while also reassuring the other Europeans about German power.[39] The US is interested as well in not being excluded from a prosperous and stable Europe based around the European Community by extending into Eastern Europe and perhaps even the former Soviet Union.[40] In general, US global influence, status and credibility as a global superpower are enhanced by its position in Europe.

Apparently, none of these interests is powerful or compelling as was the security imperative of containing the Soviet Union. Nevertheless, the combination of interests suggests that the US cannot afford to be indifferent to the future of Europe or to be marginalized in European affairs.

On the other hand, there is a set of domestic political and economic pressures and constraints that affect not only the level of domestic support for the US security and defense policy, but also the support and capacity of US institutions to facilitate the exercise of a

global role in the post-Cold War world. No doubt US major domestic problems will require considerable attention, effort and resources if they are to be dealt with effectively. Although it is not likely for the US to revert to old fashioned isolationism, nevertheless, domestic issues will dominate its agenda and foreign policy will not receive the sustained high level attention it received through the Cold War.[41] The "American First" stand of elite and popular thinking was obvious in the 1992 presidential elections and will no doubt affect the US-EC relations.[42]

The foregoing analysis of the developments in both the EC and US demonstrates that the EC-US relations are certainly going through a transitional period. Although the prospects are not definitive, nevertheless one can formulate some observations:

First: It is impossible for the US to reassert effectively its leadership in its relationship with EC, i.e. to continue working through NATO in the role of alliance leader, because of the reluctance of the allies to follow the US as they did in the past in the absence of an overwhelming threat, and US domestic preoccupations.

Second: On the other hand, US disengagement and introversion will not be possible either, considering the EC situation and needs and US economic and political interests.

Third: Thus, the most probable course the EC-US relationship will take is the reworking of the Atlantic cooperation into new patterns that grant the US the status of a major player in Europe but one without the full privileges of its past leadership, i.e. the US would accept a more modest supporting role in NATO while Europeans shoulder greater responsibility for their own security. This course of relationship would imply a diminished, though still important political role for the US. It implies pursuing a policy of "devolution", a shift of responsibility within the alliance. Europe's own major powers would take the primary responsibility for managing their own territorial defense. Such policy does not preclude an American contribution to Europe's nuclear and conventional deterrence. But certainly it does preclude a hegemonic role for the US.[43]

2. EC Trade Problems with the US and Japan

The elimination of many internal barriers to the movement of goods services, capital and labor in the EC represents an enormous opportunity and a significant challenge to both the US and Japan.

The twelve nations that make up the EC form a market with more than 320 million people compared with the US market with 244 million and the Japanese market with 130 million. However, both US and Japanese business and policy communities have registered concerns regarding the potential course EC might take and its effect on their commercial interests.[44] Washington is concerned that a single European market will involve protectionalism or other forms of regional economic nationalism, especially its security guarantee to moderate European economic policies and restrain European competitiveness. Structural weakness together with the loss of its earlier competitive edge, make the US economy highly vulnerable to the challenge posed by a united Europe, even one following open market policies. A discriminatory Europe would impose major costs on the US economy. It would further undermine American economic vigor.[45]

US concerns are wide-ranging but generally fall within two broad categories: (a) securing access to EC market; and (b) securing national treatment for US companies.

(a) The most difficult economic issue standing between Washington and Brussels is Europe's closed agricultural and industrial market. The US's concerns are justifiable especially when we note its need for the EC market. While the EC is the largest export market for the US, accounting for 24 percent of US exports, the US purchases only 9 percent of EC exports. (59 percent of European trade is internal).[46]

At the center of the problem is the EC's Common Agricultural Policy (CAP), which protects European agriculture while serving powerful domestic interests in France and Germany. Both countries initiated subsidies to their farmers, and since CAP's adoption farmers across the Community have defended the protection. Many blame EC intransigence, and particularly France on this issue for the breakdown of the Uruguay Round of the GATT talks in December 1990 and for the continued stalemate in such talks since then.[47]

Agriculture is not the only source of trade friction between the EC and the US. There is a growing tension across the Atlantic on

industrial subsidies. Europe's Airbus commercial aircraft consortium is used as an example. US companies such as Boeing and McDonell Douglas, claim that these subsidies give Airbus an unfair advantage, allowing it to sell hundreds of planes at reduced prices. Washington, however, has also contributed to trade frictions. The Omnibus Trade and Competitiveness Act of 1988, which provides for retaliation against unfair trading practices, is viewed abroad as unilaterist and not in the spirit of GATT.[48]

(b) Securing national treatment for US companies is the second source of tension across the Atlantic. US business and research communities accuse the Europeans of distinction being made between native European companies and foreign based companies.[49] One major concern for the Americans is to enable US affiliates based in Europe to share in some of the outlays of the community-funded research and development programs - some $10 billion over the next five years as well as enabling American firms to get a fair portion of the more than $500 billion worth of EC government contracts each year. However, securing such demands will depend on whether European firms get equal treatment in the US.[50]

Japan too is worried about European unity and for good reason. The EC will be a huge market that cannot be ignored. Japan is so export reliant that denial of the access of its products to Europe would force her to redirect such products to the US or back to Japan. The Japanese understand that the EC is not an invitation to an open house, but rather is an act of trade war. But Europeans at the same time complain of the Japanese not being supportive of free trade with Europe.[51]

A permanent cause for friction in Euro-Japanese relations is Europe's trade deficit, which soared during the economic crisis in the early 1970's and since then, has failed to be significantly reduced and stands at over $20 billion.

A typical example of the difficulties in Euro-Japanese economic relations is the argument about Japanese car exports to the EC. While Germany never limited imports, Italy, Spain and France did, by using import quotas. After considerable arguments, the council of Ministers in Brussels has later agreed to introduce a six year transitional period after 1993, during which Japan is to stick to voluntary export restraints according to a community wide overall quota.[52]

Another important issue is Japanese direct investment. The European side welcomed these investments, particularly in the production sector as they helped to create jobs. However, there was disappointment in Europe. The Europeans regarded these Japanese investments as a substitute for Japanese exports, but what happened was that particularly after 1985, Japan's export surplus increased simultaneously with the level of its investments.[53] Related to this is the controversial "local content" issue according to which some EC countries particularly France consider Japanese products produced in EC countries as Japanese exports. This is seen as an obstacle to direct investment by Japanese producers.[54]

Conclusion

What conclusions could be drawn from this study concerning future prospects of cooperation and conflict in EC's relations with both the US and Japan? Obviously, the type of relations that would emerge in the future among these three actors depends very much on progress achieved by the EC in its march towards unity. If the EC becomes really an economic and military bloc, and if European countries succeed in coordinating their foreign and defense policies, both the US and Japan would have to apprehend the implications of that potentiality for the status of the former as a superpower and for the steady growth of the economies of both countries. The trade diversion effect of the establishment of the EC has been remarkable. Imports from other countries into the EC shrank from 66 percent of its total imports to 48.4 percent, as intertrade within the EC grew, by the same token, from 34 percent to 51.6 percent for imports and from 34.9 percent to 52.5 percent for exports.[55] It is likely that further steps taken by EC along the path of monetary and economic union would diminish trade with these two partners of Europe. One should also recall the other assets which a united Europe would enjoy in terms of the size of the market, the number of population and the volume of the GNP to realize the wide gap that would be created between Europe on the one hand and both the US and Japan on the other if the project of united Europe were to be implemented. Besides, coordination of foreign and defense policies among EC countries would make them less dependent on the US for military intervention in trouble spots, in Europe itself, in

the former socialist bloc or in countries of the South. The status of the US would be weakened by such a development and the scene would be set for the shaping of a new multipolar international system.

However, events of the last two years have shed many doubts on the viability of the European project itself. Public opinion in major EC countries did not show much enthusiasm for the Maastricht Treaty which defined steps for closer economic and political integration within the EC. the treaty was rejected by the Danish people first in June 1992 and then accepted with a narrow majority in July 1993. The margin of electoral or parliamentary victory of supporters of that treaty was quite slim in both France and Britain in the Spring and Summer of 1993. Divergences of the monetary policies in major EC countries, rooted in opposed priorities of economic policies in these countries led to heavy pressures on the weaker currencies in the community and eventually to a revision of the European monetary system. This was considered by most observers to be a set back to the cause of European Monetary Union by the end of the century. Finally, the crisis in former Yugoslavia has demonstrated the failure of EC countries to coordinate their foreign and defense policies in order to secure a peaceful settlement of the bloody ethnic conflict among the different ethnic groups, particularly between the Serbs and Croats, Serbs and Muslims in Bosnia-Herzegovina, as well as Croats and Muslims in the same republic. Attempts by the EC to arrange ceasefire among combatants or to elaborate an effective formula for a peaceful settlement have failed while rejecting any proposal for some military intervention, notwithstanding definition of rules for air strikes by the NATO, which have not been carried out so far because of opposition of EC countries. Such a failure to agree on common foreign and defense policies made the EC quite powerless in the fact of an ethnic conflict along its south-eastern borders, which many fear might lead to a broader Balkan war. Although the US government is quite reluctant to intervene militarily on a massive scale, the call by the American President Bill Clinton for some form of military intervention, resisted by Europeans, demonstrated nevertheless, that without an American military intervention, the EC is indeed incapable of resolving any security problem of important proportions right in the heart of Europe.

Under these conditions of the sluggish march towards European unity, and in the absence of a major military threat compared to that

which the Soviet Union was perceived to represent during the Cold War, relations between the EC and both the US and Japan would be shaped mainly by economic considerations, particularly the state of an interdependent world economy. As recession in the world economy is likely to continue in the near future, the three actors are likely to pursue protectionist policies. Thus the tensions which characterized their economic relationship recently would tend to continue. The stalemate in talks over the Uruguay round would not easily end. But the interdependent nature of the three economies[56] would prevent such tensions from developing into full scale trade war. It is difficult to predict which side EC would take in the case of any trade dispute with these two partners, for much depends on the merits of their respective positions in any specific case. However, the EC would perhaps feel more concerned about the Japanese threat to its industry due to the dynamic nature of the Japanese economy, despite its relatively smaller share within the structure of EC external trade compared to that of the US.[57]

Finally, the failure of EC countries to coordinate their foreign and defense policies would lead them to continue to value maintaining the military alliance with the US. Most Europeans seem resigned to leave military intervention to be a privilege and a risk for the US, if the need for such military intervention arises and to foot the bill if they judge such intervention to be in their interest and to resist it if they see in it a manifestation of American adventure.

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SIX

THE EC AND THE SOUTHERN MEDITERRANEAN 1991-1993

6 The EC and the Southern Mediterranean 1991-1993*

Dr. Mostafa Elwi Saif

Introduction

This paper focuses on the policies of the European Community and its member states towards the states of the Southern Mediterranean during the period 1991 to 1993. These years have been characterized by profound changes and transformations in the EC, the Southern Mediterranean and the whole world as well. The paper tries to describe such changes and transformations and analyze their implications for the Community and its policies towards the Southern Mediterranean states; namely Morocco, Algeria, Tunisia, Libya and Egypt.

Regardless of the regional and global transformations and their impact on the Community's Mediterranean policy, the latter has been based on certain factors which are constantly significant such as the geographical proximity of the two regions, their special historical ties and the fact that "the Community has closer links - than any other developed country or international organization - with the developing countries and is more vulnerable to the economic, social and demographic effects of underdevelopment among its neighbors to the East and South".[1]

This implies that the Community's policies towards the Southern Mediterranean in the last three years reflect, at least partly, elements of continuity. Nevertheless, such policies could presumably be considered

* At the Seminar, this paper was presented by Dr. Wadouda Badran, Department of Political Science, Cairo University.

as a reflection of the changes that have taken place at the different levels mentioned earlier.

Thus, the focal question raised in this paper is how and to what extent the Community has responded, in its Southern Mediterranean policy, to those ongoing changes and developments.

I. Global Developments and the EC

With the collapse of the former Soviet Union in December 1991 and the preceding erosion of the Soviet empire in Eastern Europe since 1989, the Community has been a magnet attracting all of the neighboring countries to the East, i.e. in Central and Eastern Europe. A document of the Commission reiterates that "The EC is now seen as the main focus for peace, democracy and growth by all of the Europe and the neighboring countries to the South and East". The emergence of the Community as an economic and political focal point is, accordingly, due to the collapse of the barriers that have previously divided Europe and the appearance of new structures on the continent.[2]

Consequently, negotiations are going well with countries economically developed and socially progressive (Austria, Sweden and Finland) with a view to enlarging the Community.[3] However, the other side of the picture is much less bright. The disappearance of the former Soviet Union has led to the emergence of a state of chaos, turmoil and/or upheaval in Central and Eastern Europe. Addressing the problems of Central and Eastern Europe has become a high priority issued on the new agenda of the Community. It is widely accepted by the strategists of Europe that the fate of Russia and other ex-Warsaw pact states would very much determine the fate of the rest of Europe, including the Community. Success of Russia could serve as a locomotive for Europe. But if Russia is going to become a "wounded bear", it will pull Europe out of the track. In this context, mention has been made of the Baltic Republics and Ukraine which are in a worse position economically than even Russia. Amongst the Community's member states, Germany realizes most that its fate is going to be determined by Eastern Europe and Russia, and that if Central and Eastern Europe are going to collapse, Germany would feel the problem most as the largest number of migrants would be heading there.[4]

During the cold war era, the organizing principles of the EC foreign policy were conditioned by the existence of the Soviet threat, the United States protectorate and the NATO framework. Each member state also had its own foreign policy. With the end of the Cold War, the organizing principles have disappeared. What the Community needs now is a new organizing principle for foreign and security policy. The Community has to decide whether it likes to play a role in the world order or not, whether it prefers to become a world power or not.[5] But the problem is that the Community will not be able to formulate an articulate orientation, in this connection, before the turn of the century, and this will remain with the Community as one of the significant challenges for the rest of the 1990s.

The cohesion among Europeans and between them and the United States during the Cold War is no longer existing. The traditional security notion of Europe is not being supported by the present political realities. European integration has been forged by the cold war threats. Such threats are over. The question, here, is: does the integration still exist? And if yes, does it exist as a desirable process?[6]

In the context of common foreign and security policy, the Community has entered a new stage of soul searching with the signing of the Maastricht Treaty. It is difficult to recognize the existence of anti-Americanism in nowadays Europe. On the contrary, Europeans realize that the United States has a role to play in Europe. Nevertheless, the NATO is undergoing a process of substantive change. Some analysts in Europe tend to say that NATO has to work out of area or to be out of business. During the last two years, there has been frequent talks about a European pillar of NATO and the new "two-pillar" security structure of Europe. Such talks have materialized in the modest step of forming a forty-thousand joint French German corps by 1995. Others, in Europe emphasize the strategic significance of the Western European Union (WEU). But, in terms of the military command and communication systems and technology, transportation and military capabilities; and particularly nuclear power, the WEU is not a substitute for NATO. It is not more than a political organization or institution capable of issuing political directives in the field of security.

With this state of relative confusion that resulted from the end of the Cold War, the most possible unfortunate development could be the division of the Community into two blocs: one Latin, led by France with Italy, Spain, Portugal and Greece, and the other German, led of course by Germany with Denmark, the Netherlands, Belgium and Luxembourg (whether they like or not), with the United Kingdom sitting on the fence. Maastricht was a political compromise to avoid such a division.

In the 1990s, non-European centers of economic power work hard to increase their own influence by forming trade unions or economic coalitions. The United States concluded, with Canada and Mexico, the North-American Free Trade Agreement (NAFTA), and Japan tries to establish an economic grouping with the "tigers" in southeast Asia. china is also gaining ground in the field of economic power. This increasing tendency toward economic blocs outside Europe means that the Europeans have much more to lose than to win by independence from each other. With such economics blocs, it has become a vital interest for all concerned parties to finalize and conclude agreement, by the end of this year, in the context of the Uruguay Round of the GATT negotiations. Otherwise, trade relations between big economic powers could turn to be not only competitive, but also conflictive, something if happens would detrimental to all parties and the world's economic growth as well, and hence, it could lead to a deep conflict within the Community itself.

II. The Development of the Community and its Southern Mediterranean Policy

The Community has been making a continuing and evolving history of success for the last forty years. But the evolution of the Community has not been steady, as there has been a pattern of two steps ahead and one back. However, the general trend is progressive.

It is noteworthy also that the Community was not about economics only from its early beginning, it was a security community not in terms of defense but in terms of building a stable society. To put it differently, the Community was about creating a security community in the Karl Deutsch definition of the word.[7]

In the development of the Community, there have been three major steps constituting its turning points: the Rome Treaty of 1957, the Single European Act of 1987 that was supposed to lead to the Single Market by the end of 1992, and then the Maastricht Treaty. The Single European Act aimed at setting up a full economic union, while the Maastricht Treaty is based on three pillars of an aspired political union. The first pillar is common citizenship, the second is common foreign and security policy and the third is cooperation in justice and the fight against drugs and environmental problems. the objectives of Maastricht reflect the features of the present world where the nature of national sovereignty has substantially changed and global interdependence has increased.

With the progress of the Community, the number of neighboring countries which apply for the Community's membership is increasing. Some have already joined the Community in the 1980s (Greece, Spain and Portugal) and others are negotiating with the Community (Austria, Sweden and Finland) while a third group applied but have not yet received a positive answer (Cyprus, Malta, Morocco and Turkey).

Despite the success hitherto achieved by the Community, the implementation of decisions, rules, regulations and measures stipulated and/or envisaged in the Single Act and the Maastricht Treaty are still in their early beginning and will probably take a long time. Moreover, such an implementation encounters real problems and difficulties due to great aspirations and aims on the one hand and the asymmetrical structures in the member states on the other. Suffice to point to the problems facing the implementation of the rules and regulations of the Exchange Mechanism because of the uncontested strength of the German economy, and hence the powerful Deutsch Mark. The cornerstone of the Community's economic unity; namely the ECU and the European Central Bank, has been postponed to 1997 and probably to 1999 or after. In addition, ratification of the Maastricht Treaty has been acquired with great difficulty even in France that was traditionally the political locomotive of the Community.

For the rest of the 1990s, the Community will be, expectedly, very much preoccupied with its internal problems. The Community will be quite involved in solving such problems and transforming the provisions of the Single Act and the Maastricht Treaty into actions and realities, otherwise it could be really at stake. This means that the

unification process, both economic and political, launched by the Single Act and the Maastricht Treaty will consume the greater part of the time, effort and resources of the Community for the next few years. Addressing those internal problems will be the first and foremost priority of the Community. External relations of the Community, and in particular, its relations with developing countries, including those of the Southern Mediterranean, could be negatively affected.

The impact of the reunification of Germany in 1990 on the development of the Community has been an outstanding issue in European politics in the last three years. A viewpoint, which prevailed in Europe just after German reunification, believed that a unified Germany will be very much engaged in the reunification process, and especially the possible ramifications of integrating the former "East Germany" into the economy of the "Federal Republic of Germany". Others in Europe fear that a unified Germany could turn to be the "uncontested Giant of Europe" leaving very little room for the movement of her partners. Historical security concerns on the part of other European countries have reemerged. As a result some Europeans have been asking whether they will have "German Europe" or "European Germany".[8] Germany has swiftly moved to assure her European partners that their security concerns are something that relates to the past and they are groundless, as Germany herself believes in the utility and inevitability of European integration. Germany, in coordination and cooperation with France, moved in the direction of asserting the importance of the European contribution to the security of Europe (establishing the joint military corps and enhancing the WEU), and supporting the unification process stipulated in the Single Act and the Maastricht Treaty. Germany believes that the option before Europe now is not to have a "German Europe" or a "European Germany" , but to have "more of Europe" or "more of Germany". According to this view, most Germans certainly want more of Europe. But, this could not be a single act of will. Rather it depends on the reaction of all parties.[9]

Indeed, Germany has the mass that could make or break Europe. To conclude this point, the widening gap and the increasing economic disparity between Germany and her partners could undermine the Community, or at least put the latter under German control. Should this happen, the importance attached to the Southern Mediterranean

region would be diminishing as the emphasis would be moving to the East.

In the Community's member states the conservative political parties and forces are gaining ground. They represent the present wave of xenophobism in Europe. They are economically motivated by the entrance of illegal immigrants into European countries every year. Up to 5-10 percent of the population of the Community countries are foreigners with very strong concentration in some cities like Marseilles and Berlin. The conservative political groups in Europe see foreign residents as a threat to their own jobs. Emerging xenophobism could lead to the closure of the gates for new emmigrants.[10]

III. Developments in the Southern Mediterranean

The developments which occurred in the Southern Mediterranean in 1991-1993 are as important as the developments in Europe and the world in their impact on the relationship between the Community and the Southern Mediterranean countries. But the developments of the Southern Mediterranean are not of the same nature and those of the same nature are of varying degrees.

Common developments in most of the Southern Mediterranean countries are exemplified by the problems of political instability, rapid population growth, large movements of population and high unemployment. Economic growth in these countries is currently insufficient to provide work for a population that is increasing constantly. In the Maghreb countries, with the Libyan exception, over 20 percent of the work force is unemployed. Standards of living have improved slightly in Egypt, Tunisia and Morocco, while the situation in Algeria has deteriorated markedly. The debt burden remains a fundamental obstacle to economic resurgence in Algeria, Morocco and Tunisia. Fortunately, Egypt has got rid of more than 50 percent of her debt thanks to her position during the second Gulf crisis. Although the economic situation in Libya is still a "black box", it seems that the Libyan economy, notwithstanding the problems of economic mismanagement, does not encounter severe crisis due to the oil revenues on the one hand and the fact that the country is underpopulated on the other. But if the present international sanctions

continue and/or escalate, the economic situation will most likely be deteriorating quickly.

Countries of the Southern Mediterranean try to improve the economic conditions by moving to a market economy and making structural adjustments necessary for reforming the economy. Egypt has successfully completed the first stage of her economic reform program, 1991-1993, and just started the second stage which will last until 1995. In Morocco and Tunisia some steps have already been taken and progress, though slow, is being made.

The Community realizes that the stability and prosperity of her member states depends, partly, on the stability, relative prosperity and development in the neighboring countries in the Southern Mediterranean. This is why the Community has engaged herself in policies and programs aiming at boosting the efforts of Southern Mediterranean countries to create jobs and reduce unemployment. The Community also launched a new policy of encouraging economic and political liberalization in the region as it believes that there is a close relationship between liberalization and development.

When it comes to the Islamist phenomenon, the Southern Mediterranean countries are not in a coherent position. The political oppression in Libya does not allow the emergence, let alone the rise, of a strong Islamist opposition movement. In Morocco, the religious role of King Hassan II has deprived the Islamist movement from getting a strong socio-political base. In Egypt, the oldest Islamist movement (Moslem Brothers) was established in 1928. In addition, since the 1970s the Islamist movement in Egypt has not been confined to the Moslem Brethern, as more extremist; more violent groups have emerged as a result of the domestic power politics games and balances. The latter groups have turned, in the last year, to be terrorist ones whose purpose is to endanger the political stability of the country. In Tunisia and Algeria the rise of Islamist protest movements since the mid 1980s has strongly indicated popular disaffection with the governments and their development policies. However, the Islamist movement in Algeria has been much more powerful than in Tunisia. This is due to several factors, the most salient of them are as follows:

1- The failure of development strategies has been much more painful in Algeria than in Tunisia, furthermore while Algeria is much richer in natural resources, it has suffered from

catastrophic consequences of corruption and failing development policies. This means that popular expectations in Algeria are much higher than in Tunisia. Conversely, the actual developmental record of Algeria has been even worse than that of Tunisia. On one word, peoples of the two countries have been frustrated, but frustration in Algeria has been much bigger.

2- Socioeconomic structures and systems of Tunisia have been more open than those of Algeria.

3- The Algerian regime started a new policy of uncontrolled democracy by the end of the 1980s and the beginning of the 1990s, while the Tunisian regime is conducting the political life in the direction of controlled democracy where the Islamist movement is prohibited and prevented from participating in the regime.

4- Algeria has gained its independence through armed struggle under nationalist and Islamists banners. This means that the Islamists were there from the very beginning and they represent the root of the present Islamist movement. Tunisia did not experience armed struggle in order to obtain independence and this makes a difference in the political maps of both countries, at least in terms of their willingness to resort to violence.

One of the strengths of the Islamist movements at their height is that they represent a moral alternative to corrupt official establishments. But, since violence has been substituted by dialogue at earlier years, the moral legitimacy of governments, and to greater extent, Islamist movements has been undermined.[11]

To conclude this point, the present position is not coherent in the Southern Mediterranean countries. Conflict with Libya regarding the Lockerbie Affair is escalating. In Egypt and Tunisia, there is slightly decreasing population growth, moderately increasing economic growth and moderate; controlled democratic regimes. Both countries have good relations with the Community and its member states. Morocco is in a similar position. But, Algeria is facing dangerous problems: declining economy, social inequality and a military regime. Although the Southern Mediterranean does not represent any threat in the military sense, it could represent a security threat in the broadest sense of the term. The Community is particularly worried about Algeria. In this context, Europeans now talk much more of threats to the fabric of

European societies than of threats to the territories of European states or alliances. Security here is broadly, rather than narrowly, defined. Security, in its broader sense, is achieved not by strategies of defense, but by strategies of building open, democratic and prosperous societies and environments.

Theoretically, there are three alternatives before the Southern Mediterranean countries in dealing with the new realities and situations mentioned earlier. The first option is to restructure their economies in order to lessen their dependence on the outside world and drive their economies in the direction of independent, indigenous-oriented development strategy. The second option is to adopt the strategy of collective bargaining with the Community to improve the present terms of economic cooperation. The third option is that each country conducts her relations with the Community unilaterally by restructuring her economy to fit more with the new needs and requirements of the Community[12] and in the meantime get greater support from it. The countries of the Southern Mediterranean do not possess now the prerequisites of independent development. Add to this that we live now in a world which is very much interdependent, especially economically, financially and technologically. Moreover, there is no regional organization that embraces all of the Southern Mediterranean countries. The Arab Maghreb Union (AMU) which emerged in 1989, still suffers from the dispute over the Sahara Affair, the disparities and divergences amongst its member states and the different perceptions and orientations of such states. This is to say that the AMU could not be regarded as a good forum for its member states to perform collective bargaining with the Community. Despite all of the rhetoric about coordination, the only realistic option left for the Southern Mediterranean countries is to count on bilateral relations with the Community with no coordination with other SMCs.

It is noteworthy that although the Community encourages the Maghreb countries to strengthen their regional cooperation arrangements (since without regional cooperation conflicts between these countries continue to exist), the Community would not be pleased with an AMU powerful enough to provide its member states with a viable mechanism of collective bargaining with it.

IV. The Southern Mediterranean Policy of the Community

Since its earlier years, the Community was bent on developing a comprehensive framework of cooperation with the Mediterranean countries. Materialization of this idea, however, took a long time. Only in 1976, the Community signed cooperation agreements with Tunisia, Algeria and Morocco. The overall cooperation agreement with Egypt was concluded in January 1977. Libya has not contractual relations with the Community although the latter is the biggest trade partner of Libya, more than 61 percent of Libya's imports comes from the Community and more than 57 percent of her exports goes to the Community.[13] It may be right that Libya has shown no interest in making contractual relationship with the Community and that her connections with Egypt, and even the Sudan, may be stronger than the connection she would like to have with the Maghreb countries. Nonetheless, Libya remains a Maghreb country and she is a member state of the AMU. Therefore, the Community policy which neglects Libya suffers from a reductionist fallacy, it defines the Maghreb as Morocco, Tunisia and Algeria. This definition is not justifiable even if the Community has problems in dealing with Libya and her regime. It is better to leave the definition of the region to its countries and they have already done that by embracing both Libya and Mauritania in the AMU. Mauritania is not our concern in this paper, since she is not a Mediterranean country. But Libya is. And, thus, it is no good that he Community jumps over facts and says that it is fine that the five countries of the Maghreb develop their own regional arrangement, but the Community will deal with only three of them.

The cooperation agreements concluded with the four countries of the Southern Mediterranean deal with both trade arrangements and economic, financial and technical cooperation. In the realm of trade cooperation, the general principle is free access (no customs duties or quantitative restrictions) of industrial products, although there are limits on textile and refined petroleum products, under arrangements concluded with Morocco, Tunisia and Egypt, outside the framework of the agreements. It was not possible to make such concessions on agricultural products, but variable tariff cuts (from 20 percent to 100 percent) are provided for the bulk of agricultural exports (between 80 percent and 90 percent). However, important agricultural products,

such as olive oil, wine, oranges, small citrus fruits, lemons, tomatoes and table grapes, have been subjected to a more protectionist policy. Difficulties and disappointments have emerged in the trade relationship. The Community partners in the Mediterranean believe that the Mediterranean policy had not lived up to expectations. The proof of this is their continuing or worsening trade deficits with the Community which could be attributed to the following factors:[14]

1- The Community's protectionist policies towards its Mediterranean partners in the industrial sector (textiles).
2- The common agricultural policy has become an increasingly protectionist operation, resulting in production increases and surpluses regardless of the real market situation and the interests of traditional preferential suppliers.
3- By extending the initial concessions to all Mediterranean countries and by granting concessions to other developing countries, the Community has eroded their preferences.

The Community provides financial assistance to the Southern Mediterranean countries in order to support their development programs. From 1978 to 1991, the Community concluded three financial protocols with those countries, the first covered the period from November 1978 to October 1981, the second ran form 1982 to 1986 and the third from 1987 to 1991, with a total increase in funds of 52 percent and 59 percent respectively. But given the rate of inflation, there has really been no improvement in the amounts provided in the three financial protocols. Moreover, although the scope of cooperation offered by the agreements is wide, the funds available under the three financial protocols were limited and modest: 669 million, 1015 million and 1618 million ECU respectively. Such funds have been inadequate in view of the great needs of the recipients, these sums only cover a tiny part of the projects financed, particularly in light of the fact that part of the money is in the form of loans and a large percentage of the grants goes on interest rebates on these loans.[15]

Because of the large number of Maghreb nationals who work in the Community countries, the cooperation agreements with these countries contain special provisions about labor. Such workers are guaranteed working conditions, wages and social security benefits equal to those of European workers. However, this part of the agreements has not been fully operationalized, since the question needs

to be practically settled on a bilateral basis between the principal countries concerned.[16]

Egypt and, to a much lesser extent, Morocco have benefited from the Community's food aid program in the 1980s. Egypt and Algeria, and to a lesser extent, Tunisia and Morocco, have displayed an interest in long-term food aid agreements with the Community. But the problem here, is that the Treaty of Rome does not provide the possibility of funds for such programs which already exist between some of these countries and the US, Canada and Australia.[17]

V. The New Environment and the New Mediterranean Policy of the Community: Change or Adaptation?

The Community, at a time when it is strengthening its own political cohesion and reinvigorating its own economy, could not allow the gap in economic and social development between itself and its Southern Mediterranean neighbors - already too wide - to become even wider. On the contrary, it should work to reduce the danger of instability on its doorstep and fully support the movement towards economic liberalization and political democratization in these countries.

In December 1989, the Council adopted the framework for redirecting the Community's Mediterranean policy. According to the document of the Commission entitled, "Redirecting the Community's Mediterranean Policy: Proposals for the Period 1992-96", it is clear that the response of the Community to the transformations in the global, regional and internal environment is of adaptive, rather than fundamental, nature. Some of the policies of the Community (trade policies) are to continue with no change until 1996. With regard to the policy of financial aid, funds committed are much higher than those allocated in the first three generations of the financial protocols. However, the amount of money allocated in the fourth generation of the financial protocols (1992-96) is still short of meeting the needs of the recipient countries. But there will be new spheres and sectors of financial cooperation such as: regional cooperation among the Mediterranean partners, developing the business sector, environmental protection, the development of human resources and support for economic reform.[18]

The Community's security attitude toward the Southern Mediterranean, in the period 1991-93 does not reflect any serious change. The Europeans raised the banners of a "CSCM" and other formulas for the Mediterranean security (the 5+4, the 5+5 and then the 12+3 formulas) only when they were under the pressure of the Gulf War II. With the end of that war, such slogans disappeared.

Nevertheless, the Community and its member states agreed to cancel 50 percent of Egypt's external debt by July 1994, supported Egypt in her negotiations with the IMF, the World Bank and the Paris Club. The Community's aid to Egypt has also increased in the same period.[19]

The Community has responded to the changing environment by adopting different attitudes and policies, some of them give the impression that the Community does not recognize the transformations that took place, and others represent an adaptation to such transformations. But none of them could be considered as a turning point or a fundamental change in the Community's position. Inclusion of textiles in the free access arrangements provided for in the cooperation agreements can happen only gradually, and will depend on a positive outcome in the Uruguay Round textile negotiations. In the field of agricultural products, there will be duty free admission to the Community market by 1 January 1996 at the latest, for the products figuring in the 1987 and 1988 additional protocols. The Commission does not consider it advisable to make any new proposals in the immediate future.[20] This means that there has been no change or improvement of the terms of trade between the two parties between 1991 and 1993.

On the contrary a report by the United Nations Industrial Development Organization (UNIDO) expects a 30 percent reduction in the Arab industrial exports to the EC countries by the end of 1993. The report indicates that the biggest reduction would be that of Tunisia's exports (68.7 percent). Moroccan, Egyptian and Libyan industrial exports to the EC countries are expected to be shrinking although in lesser degrees (55.7 percent, 38.5 percent and 0.5 percent respectively).[21] In short, all of the Southern Mediterranean countries, with the exception of Libya, are going to suffer, in terms of trade, as a consequence of the implementation of the rules, regulations and decisions related to the Single European Act that aims at transforming

the twelve markets of the EC countries into a single market and the Maastricht Treaty which aims at establishing full economic unity among the twelve countries.

The economic unification process has led to swindling relations between the Community and the Maghreb countries. Nevertheless, the Community has been keen to reach a negotiated settlement of the trade problems with Morocco and then Tunisia, but not with Algeria unless it puts its economy into order. The two parties work for a free trade agreement. In this direction, negotiations have been held between the Community and Morocco with a view to establish closer economic relations that transcend the boundaries set up by the 1976 cooperation protocols. However, the Moroccan request to include the total liberalization of agricultural trade as part of this process and the Community's insistence to exclude agriculture (as is the case in the framework of similar agreements concluded with Eastern European countries) have shown, according to a senior official of the Commission, that "the idea of free trade has proved to be impracticable".[22]

Despite the Community's firm stance in the free trade negotiations with Morocco, the present situation in the Maghreb countries, and especially the Algerian severe crisis, could urge the Community to put her Southern Mediterranean policy, and particularly her policy towards the Maghreb region, under due reconsideration. The Community needs now a novel program of economic and political action in dealing with that delicate volatile area of the Maghreb whose strategic significance to the Community is increasing more and more. The Community needs a new formula and a new methodology that should be comprehensive and not confined to the issues of trade. The 1976 cooperation protocols are no longer sufficiently helpful. But as the Maghreb countries are not eligible to join the Community, they will not have agreements with the Community similar to those concluded between the latter and Eastern European countries. Therefore, something in between (which is based on closer relations than those of the 1976 protocols and weaker relations than those of the free trade agreements concluded with Eastern European countries) constitutes the practical objective of the new Community relations with the Maghreb.[23]

The Community prefers to have one policy - and not policies - towards the Maghreb countries. But those countries may prefer to deal with the Community individually, rather than collectively, and unilaterally rather than multilaterally. In a report prepared for the Council, by the Spanish Foreign Minister, the Community's cooperation with Tunisia is put in the framework of the Community-Maghreb cooperation. But the Tunisian side calls for more support to Tunisia in order to enhance the country's endeavor of economic development and political opening.[24] In the meantime, other Mediterranean countries urge the Community, according to the wording of the Egyptian Foreign Minister, "not to take initiatives limited exclusively to Maghreb countries, like Egypt are seriously preoccupied with the so-called Maghreb policy which should be developed into a general Mediterranean initiative, that would envisage as one of its first steps a "North African dimension". Speaking of trade between his country and the EC, the Egyptian Minister said: "Egypt must receive no less favorable treatment by the EC than its other partners, especially those of the Mediterranean".[25]

The negative effects of the developments within the Community towards full economic unity on the Southern Mediterranean countries go beyond trade relations. Capital flows from the Community countries into the SMCs and migration movement from the latter into the Community countries will be negatively affected.

Economic assistance given by the countries like Germany, France, Italy and others within the Community started to be cut down. And the downward trend is expected to continue. Aid from such European countries to Southern Mediterranean countries is no exception in this regards. Such countries will be more preoccupied with tackling their own emerging economic problems than sympathizing with others in fighting against their bad economic condition. For others, Eastern European countries and the Palestinians in the West Bank and Gaza come first and the Community should give them higher priority than those of the Southern Mediterranean.

Nevertheless, the fourth generation of cooperation protocols concluded between the Community and Southern Mediterranean countries (1992-1996) has increased the financial assistance given by the Community to those countries.

The new Mediterranean policy provides an overall aid package of ECU 4405 million, 2075 of which are for the financial protocols, 2030 are for more broadly based financial cooperation outside the protocols (including regional cooperation and cooperation on the environment and 300 million to provide back-up for economic reform. The budget for the three Maghreb countries for the five years 1992-96, has been set at ECU 2375 million, representing a 40 percent increase over the third generation financial protocols. The fourth protocol with Egypt is worth of ECU 568 million. The total amount for the Maghreb countries and Egypt is ECU 2943 which is about two thirds of the amount provided for the twelve countries of the Mediterranean.

How can one explain the increase in absolute figures of the financial assistance given by the Community to the SMCs in the last protocols? Any explanation should be made in light of the following points:

1- The increase is in the figures of the overall aid package within the framework of the new Mediterranean policy of the Community for the years 1992-1996. But the increase is very modest, if there is any, in the amount given in the fourth financial protocols. The fourth financial protocols provides ECU 2075 million for the twelve countries of the Mediterranean, while the third financial protocols gave the three countries of the Maghreb ECU 1608 million. There might be no increase in the amount given by the financial protocols, especially in the case of the Maghreb countries. What counts for the 40 percent increase in the budget for those countries for the five years 1992-1996 is the financial assistance based outside the protocols including regional cooperation, cooperation on the environment and economic reform back-up programs. This is also the case regarding the cooperation of the Community with the SMCs as a whole. It is noteworthy that the money appropriated by the Community for cooperation programs based outside the financial protocols is larger than the amount given to such protocols (2330 million and 2075 million ECU respectively).
2- Given the inflation rate, there is no real improvements in the amount allocated for the financial protocols.
3- We are still in the beginning of the time period covered by the fourth financial protocols which have been put into force only by

the last quarter of 1992. Until the end of 1996, one cannot be sure that all the money allocated for the financial protocol programs will be transferred by the Community and/or absorbed by the economies of the recipient countries of the Southern Mediterranean.

4- Nevertheless, there is certainly a 47.7 percent increase in the amount allocated for the Maghreb countries. This increase reflects the increasing concern on the part of the Community about the recent developments in the Maghreb area, and especially the crisis in Algeria and the effort of the Community to contribute to the amelioration of conditions there.

The appropriations made by the Community for developing the business sector to create new jobs, protecting the Mediterranean environment (as the Mediterranean is now the most polluted sea) and the development of human resources are supposed to be increasing. But the activities just mentioned need huge amount of money. The Community funds help but it can not do the job alone. The Mediterranean countries have to bear the greater responsibility by adopting serious economic reform programs and creating a better environment for domestic private investment. Support for economic reform is an important element in the new adaptive policy of the Community towards the Southern Mediterranean countries. Aid in this field would be used essentially for two purposes: a) to provide technical assistance needed to implement economic reforms, in areas including savings and credit; b) to finance back-up programs vital to the success of reform, particularly job creation programs and import programs for capital goods, spare parts and inputs.

In response to the changes that took place in the Maghreb countries, the Community stressed the importance of the following policies and instruments:

1- To ameliorate the socio-political consequences of the economic reform programs, the Community tends to support sensitive social sectors (health care, education and accommodation).

2- Investing in oil and gas, as investment in this field is of great strategic importance to the Maghreb countries and to the Community. Mention should be made of the Algerian gas pipeline, project financed partly by the European Investment Bank.

3- The Community has provided a grant to Algeria to alleviate her severe housing crisis by importing construction materials and pre-fabricated units to facilitate and accelerate the building of a hundred thousand units for lower classes.

4- Attaching more importance for new spheres of cooperation: a) in the social sector, the Community increases its interest in developing the countryside and suburbs of the major urban centers; b) in the cultural sector, the Community is increasing her efforts to improve her image in the eyes of her Mediterranean partners; and c) in the political sphere, much higher priority is accorded to the respect of the Community's partners for human rights.[26]

However, the economic cooperation between the Community and the SMCs is constrained and its low ceiling is determined by the economic disparities between the two parties, the socioeconomic imbalances within the SMCs and the different political structures and ideological orientations of the two sides. According to the report of the Commission on the future relations between the Community and the Maghreb, the disparity between the levels of development on the two sides of the Mediterranean has reached a ratio of one to ten, and is still widening. The economic growth in the SMCs is currently insufficient to provide work for a population that is increasing constantly and this could lead to increasing the emigration from the Southern to Northern Mediterranean. Over 20 percent of the labor force in the Maghreb countries is unemployed, and the figure for the under twenties is as high as 30 percent. Standards of living have improved only slightly in Tunisia, Egypt and Morocco, while the situation in Algeria has deteriorated markedly. The debt burden in such countries remains a fundamental obstacle to economic resurgence. In 1989, the national debt represented 328 percent of exports of goods and services for Morocco, 249 percent for Algeria and 137 percent for Tunisia. Total debt servicing was 32 percent of exports of goods and services for Morocco, 69 percent for Algeria and 23 percent for Tunisia.[27] The cancellation of 50 percent of the external debt of Egypt during and after the second Gulf crisis has alleviated Egypt from an unbearable economic burden, otherwise the suffering of Egypt from the debt burden could have been even much more severe than that of the Maghreb countries. The SMCs are facing severe financial crisis. The

worsening economic conditions in the SMCs do not attract foreign investment. In addition, the amounts given by the Community, though increasing, are not sufficient and do not live up to the dire needs of the economies of the SMCs for big capital inflows.

Moreover, it is the conviction of the Community that there is a close relationship between liberalization and development. Although many SMCs have initiated a trend towards liberalization, they are still in the beginning of a long way. Also, some of those countries are not yet convinced of a positive relationship between liberalization and development (Algeria and Libya). The Community believes that liberalization programs should be encouraged through policies of political reform, respect for human rights, consolidation of the rule of law, free and regular elections, establishing democratic institutional systems guaranteeing pluralism and effective participation of minorities. The Community considers that its relations with the SMCs must be founded on a common commitment to such policies and values of liberalization.[28] Some political forces in the Maghreb countries have strong reservations about the Community's stand regarding the relationship between liberalization and development on the ground that "dogmatic liberalism has two connotations, that is, colonialism and single crop farming. They believe that Europeans must not make any ideological speeches if they wish to do business with the Maghreb countries. As the Maghreb countries have developed along different lines, those forces in the Maghreb countries ask the Community to make a distinctive initiative for each Maghreb country rather than formulating the same policy for them all.[29]

Environment is an important item on the agenda of cooperation between the Community and the SMCs in the nineties. First, there is the environmental program for the Mediterranean (EPM) carried out jointly by the European Investment Bank (EIB) and the World Bank since 1988. Within this context, the EIB has announced a loan of ECU 17 million for safeguarding the Mediterranean environment and managing water resources in Tunisia.[30] Second, there is the Mediterranean Environmental Technical Assistance Program, METAP which is financed by the EIB, the World Bank, the UNDP and the EC Commission and is aimed at providing technical assistance and financial support for the preparation of investment projects and the reinforcement of environmental protection organizations. The first

stage of METAP provided between 1990-1992 for 61 activities in 11 Mediterranean countries in various environment fields. A ministerial conference organized by the EIB and the World Bank in Casablanca launched the second phase of METAP, which is to last for three years (1993-1995). The METAP II should support the key METAP priorities, particularly water, urban environment and capacity building.[31]

In the sphere of socio-cultural relationship, the problems facing the migration movement from SMCs to the Community countries might cause additional pressure on the cooperation between the two parties. There are various sources for the migration problem. In some SMCs, the economic conditions might be worsening. As a result, migratory movement from such countries to their immediate neighbors to the North (of course France, but also recently Spain and Italy) could continue or even increase. In the meantime, increasing numbers of migrants would be moving from Eastern European countries to the West, and particularly to Germany.[32] Ironically, migrants move to the countries of the Community at a time where such countries started to suffer from real economic problems. Unemployment has reached remarkable rates in 1992. It is 22.3 percent in Spain, 11.8 percent in France, 11.2 percent in Italy (these are the largest three countries receiving migrants from the Maghreb countries), 10.3 percent in the UK, 9.7 percent in Belgium, 8.6 percent in Germany and 5.3 percent in Holland.[33] Rates of annual growth of the GNP, industrial production and wages are decreasing, but the prices are increasing. The combination of such factors led to the resurgence of racist political movements and organizations in Western European countries using violence against foreigners, and particularly against migrants who came from SMCs. This leads to pressing problems in the management of future relations between the two sides. Increasing the Community's aid to SMCs could help offsetting the effects of firmer restrictive emigration policies adopted by the Community's countries. But the problem is that the Community's assistance can not compensate for the migrants' remittances which are equivalent to US $2.2 billion a year.[34] In the field of security relations, the security perceptions and policies across the Mediterranean are quite different. For example, the NATO is perceived as a means of security in the north and insecurity in the south.

On the other hand, there is no cooperation in defense and security between Southern Mediterranean countries because of the divergences, disparities and distrust. But the Southern European countries cooperate with each other and with other NATO member states in security relations (joint training and maneuvers). In addition the US felt uneasy towards the notion of establishing a Conference on Security and Cooperation in the Mediterranean (CSCM), as the appearance of such a security arrangement could, with time, reduce the effectiveness and cohesion of he NATO alliance and, in case that it succeeds, it could add to the strength of European powers vis-à-vis the US in the future. The concept of a CSCM suffers also from the differences and cleavages in the Mediterranean and between its countries. The list includes the Luckerbi affair, the Sahara conflict, the Cyprite problem and the Turkish-Greek dispute.[35]

The proposed formulas of security dialogue between the Community and its Mediterranean partners have been always changing. The start was with a 1 (the Community +1 (the AMU) formula. It failed because the Community member states on the Mediterranean preferred another formula to counter the growing influence of Germany in Northern and Eastern Europe. It was the 4+5 (France, Italy, Spain and Portugal + countries of the AMU), then the 5 (Malta added) +5. This formula also failed and the proof is that the summit that was supposed to be held in Tunis in 1992 did not take place. And lastly the formula of 12 (the Community member states) +3 (Morocco, Tunisia and Algeria) was suggested as a substitute. The 12+3 formula neglects both Libya and Mauritania and reflects the differences amongst the twelve concerning issues of security cooperation with the Mediterranean. While Germany preferred the 1+1 dialogue, France and other Mediterranean member states of the Community opted for the 5+5 and the Netherlands, Belgium and Denmark go with the 12+3 dialogue. The UK is careless about the whole notion.

This is why the CSCM has been declared dead, as there is a credibility gap between the two shores of the Mediterranean and within each party regarding the prospects of Mediterranean security cooperation. Nobody takes the idea seriously as complexities of the region are diverse. The credibility gap is attributed to the substantial contradictions between the two worlds of the Mediterranean (Northern vs Southern Mediterranean). These two Mediterraneans are different

in almost everything, in culture, language religion, political systems, economic development and conflict management mechanisms. While the culture in the North is European or Western, it is Arab or oriental in the South. There are also Christianity vs Islam, liberal democracy vs political oppression or at best controlled embryonic pluralism, industrially developed and technologically advanced states vs underdeveloped or at best developing ones and permanent search for common grounds and policies to solve problems and settle conflict vs constantly differing views.

In such an environment, the ideas of Mediterranean security or security cooperation between the Community and the SMCs could not materialize.

Notes

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8. Cameron, op.cit.
9. Stuermer, op.cit.
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SEVEN

THE EC AND THE ARAB-ISRAELI PEACE PROCESS (1991-1993)

7 The EC and the Arab-Israeli Peace Process (1991-1993)

Dr. Abdel Moneim El-Mashat

Introduction

Up to the recent PLO-Israeli in Oslo through the Norwegian connection, one may argue with some confidence that the EC role in the Arab-Israeli peace process (1991-1993) is rather symbolic. However, the Oslo secret direct negotiations between the Palestinians and the Israelis with their fruitful outcome disclose a highly constructive role played by the Europeans in reaching the recent accord.

Of course, all of us know that Norway is not a member of the EC. However, it is a member of the European Free Trade Association (EFTA). We know also that the EFTA seven member states reached an agreement with the EC in October 1991 to build a 19 member European Economic Area starting with January 1, 1993.[2]

The "Gaza and Jericho" first accord is a deal under which Palestinian autonomy and Israeli withdrawal would take place in the whole of Gaza and in Jericho (West Bank). The autonomy of those two areas would be accompanied by the turning over of major non-security administrative functions in the rest of the West Bank.[3]

It is true that the US, since the Madrid peace conference is taking the lead in the peace process as an active intermediary, while the Europeans are just observers. It seems, however, that the Europeans are shifting to the shepherds role[4] as a step toward a more active and constructive role. Nonetheless, one may argue that the Europeans are becoming more sensitive to major shifts in the area to the degree that they may not miss them contrary to what happened during the Camp David Accords in 1978 and the Egyptian-Israeli peace Treaty in 1979.

This paper is an attempt to analyze the role of EC in the peace process. Before we go into this it may be important to indicate the limits of our analysis. First, there is time limit. In spite of the fact that the time span between 1991 and 1993 is extremely crucial, still it is a short one. It is true that the most serious developments concerning the Arab-Israeli peace process are recently taking place nonetheless we are moving within a very short time span.

Second; there is also a domain limit. In the Middle East it is almost difficult to separate between regional conflicts. The Palestinian-Israeli conflict is inseparable from the Syrian or Lebanese-Israeli conflicts. All these cannot be dealt with independently from the UN or West-Iraqi dispute or the Iranian-Arab dispute or the conflicts over water or other rare resources in the area. Hence, the EC role in the Arab-Israeli peace process has been dealt with here as a separate issue rather than an integrated part of the regional overall development process. It is understood that the political domain is our main concern.

Third; there is also a scope limit. Since we have been witnessing a unique peace process starting with the Madrid Peace Conference, both on bilateral and multilateral negotiations, we will examine the role of EC in both tracks. We will not go into the bilateral accords between the EC and the member states of the Middle East sub-system. In this regard we will deal with two main points:

1. Determinants of the EC role in the peace process.
2. Major aspects of the EC role in the peace process.

1. Determinants of the EC Role in the Peace Process

It is the conviction of the author that the EC position in regard to the Arab-Israeli conflict and especially the Palestinian-Israeli conflict has been more fair and more even-handed than the American position. The Venice Declaration of June 30, 1980 is just a clear example of what I mean. The Venice Declaration stressed the right of self-determination for the Palestinians and the PLO participation as a representative of the Palestinian people. Added to this is the fact that in the 1980s the Europeans began to undermine the Israeli policy in the occupied territories by establishing relations through Amman with the Palestinians, by organizing Palestinian exports from the occupied territories, by putting certain pressures on Israel in the economic field and partly politically too.[5] These and other positive moves

characterized the EC role in the peace processes. Nonetheless, there are some developments that occurred in the period of our study which hindered, to a great extent, the ability of the EC to move forward. These developments represent determinants of the EC role in the process. Most of these determinants are structural ones. Therefore, their impact is of great significance on the EC role in the area. Among these structural changes are the following:

1- The change in the structure of the international system.
2- The linkage between the Gulf Crisis and the peace process.
3- The change in the future of Germany.
4- The Maastricht Treaty.
5- George Bush's initiative over the Middle East peace process.

1. The change in the structure of the international system: the New World Order

The Gulf crisis and after ushered a new era in the development of the international system. In the State of the Union Address on January 29, 1991 President George Bush mentioned that "What is at stake is more than one small country [he means Kuwait]; it is a big idea; a new world order, where diverse nations are drawn together in common cause to achieve a universal aspirations of mankind, peace and security, freedom, and the rule of law.[6] This statement was almost a year before the total collapse of the Soviet Union. The new world order means the shift in world power in the direction of more hegemonic role of the USA. On the institutional level, it means, too, that the UN and similar and related global organizations can be utilized by the US. Hence, global as well as regional issues, except for the European region, may be determined by the will of the US. It seems that the EC members as well as different regional powers came to this understanding. This is one of the results of the end of the Cold War.

2. The Linkage between Middle East Crises

It is true that Saddam Hussein was the first to emphasize the link between the resolution of the Kuwaiti crisis and the settlement of the Arab-Israeli conflict. It turned to be almost a code of honor since the Gulf crisis to stress this inevitable link. Some of the members of the EC were not fully convinced by this link, such as the British and the Dutch. If the Community has pushed harder on the linkage between

the Kuwaiti and the Palestinian issues, then a breakthrough might have been achieved.[7] In spite of the lack of consensus in Europe in this regard, some leaders of prominent states such as President François Mitterand were convinced of such a link. In his speech to the United Nations on 24 September 1990, he presented a four-stage plan involving the announcement of a pull-out of Iraqi forces from Kuwait, accompanied by a withdrawal of foreign forces from the region. An international conference would serve as the third stage, and would involve the settlement of Lebanese and Palestinian issues as well. For the fourth stage, Mitterand called for the reduction of arms in the Middle East.[8] The linkage, thus, was stretched not only horizontally to different geographical locations in the area, but also vertically to different issue areas as well. One major problem facing the EC policy in this regard, as well as other fields, is the unanimity requirement in the Council of Ministers. Majority voting might have made a push on linkage possible.[9]

3. *The Change in the Future of Germany*

On September 12, 1990 a treaty on the final settlement with respect to Germany took place. Germany, both Federal and Democratic, the USSR before its collapse and dispersion, the UK and the USA are members to this treaty. In the preamble of the treaty the following statement was mentioned: "Welcoming the fact that the German people, freely exercising their right of self-determination, have expressed their will to bring about the unity of Germany as a state so that they will be able to serve the peace of the world as an equal and sovereign partner in a united Europe. The united Germany reaffirmed its declarations that only peace will emanate from German soil and it will never employ any of its weapons except in accordance with its constitution and the charter of the United Nations.[10]

As a matter of fact, the unification of Germany is no less important than the collapse of the Soviet Union and the end of communist regimes in Eastern Europe. However, the mere fact that Germany has united again, means that it will spend more time and resources in the internal rehabilitation process. This of course may cause some delay in the sphere of initiatives not only concerning the Middle East but also regarding other global and regional issues.

4. The Maastricht Treaty

In December 1991 the Maastricht Treaty has been signed. The main goal is to achieve EPU (European Political Union), EMU (European Monetary Union) and a social charter to unify workers' rights.[11] The final objective is to establish economic and political union as a step toward the United States of Europe. In spite of the importance of the Maastricht Treaty to the future of Europe, the official and popular support for it differs from one state to the other. Germany, for instance, is more enthusiastic for the political unity than other states. The UK is less enthusiastic than others. While France adopts a moderate attitude toward the Treaty. Accordingly, the EC member states are over occupied by generating public support behind the Treaty. This, one may expect, diverted major European attention from other regional issues among which is the Middle East peace process.

5. George Bush's Initiative over the Middle East Peace Process

The protracted nature of the Arab-Israeli conflict and the eruption of other conflicts in the Middle East highlighted the structural deficiencies of the existing order in the area. Consequently, President George Bush in his keynote post war speech to Congress on 6 March 1991 outlined four broadly pillars for a Middle East settlement.

As a first pillar, Bush stressed the need to construct a new security structure for the Gulf. Next, an arms control regime would have to be created which would lead to the eventual elimination of all weapons of mass destruction and an end to the ceaseless spiral of escalation in conventional weaponry. Third, the imbalance in the economic distribution of wealth in the region would have to be addressed, so that the poorer Arab countries should benefit from some of the riches of the wealthy oil-producing nations. Finally, the Arab-Israeli conflict, which had been the source of so much instability in the region, needed to be tackled by a sustained diplomatic initiative.[12]

It is important to indicate that the British Foreign Secretary, Douglas Hurd, interested himself in setting out guidelines for a post war Middle East settlement, proposed on February 2, 1991 similar objectives for the construction of a more peaceful order in the Middle East.[13]

The former US Secretary of State, James Baker traveled between the capitals of the area in an active shuttle diplomacy where he was able to set the ground for the Middle East peace conference.

2. Major Aspects of the EC Role in the Peace Process

The role of the EC in the peace process has exceeded the symbolic and verbal support to tangible contribution in order to set up an environment conducive to just and lasting peace. It has been eloquently expressed on December 12, 1992 in conclusions of the presidency as follows: "The European Council reiterates its full support for the Middle East Peace Process in both its bilateral and multilateral aspects, and the role of the co-sponsors. It welcomes the commitment to the process of the incoming administration in the United States. The European Community will continue to play an active and constructive part in the process in accordance with its positions of principle as the basis for a just, lasting and comprehensive settlement. The European council is convinced that such a settlement is in the interests of Israel and its neighbors, of the Palestinians, and the Middle East region as a whole. The current peace process represents a great opportunity which must be seized if dangers to the stability of the region are to be avoided. The European Council calls on all parties concerned to press ahead with the negotiations constructively. The European Council stresses the importance of assuring respect for human rights and of implementing confidence-building measures as a means of increasing the level of trust between the parties and taking the negotiations forward".[14]

In trying to understand, not evaluate, the role of the EC in the peace process, it may be useful to focus on the following dimensions:

A. Bilateral talks 1991-1993.
B. Multilateral negotiations 1992-1993.
C. Bilateral interactions with Israel 1975-1993.
D. The Palestinian-Israeli Accord and the construction of peaceful environment 1993.

A. Bilateral talks: November 1991-September 1993

The Arab-Israeli Peace Conference mechanism gets underway in Madrid, Spain envisages two formally separate but politically linked

tracks, three bilateral negotiation rounds between Israel and Syria, Lebanon, Jordan and the Palestinians who have a joint negotiating delegation with Jordan on the respective issues of contention. On the second track, there is a system of multilateral commissions in which other countries from and outside of the region participate in talks on the main questions at hand for the long term stability the Middle East, economic cooperation, environment, refugees, water resources, regional security and arms controls.[15]

In this process eleven bilateral rounds took place, and almost twelve multilateral sessions were held.[16] Before going into details, it may be revealing to indicate that in the inauguration of the Madrid Conference the European representation was not visible. Nabeel Shaath, advisor to Yasser Arafat suggested that the EC should appoint "an important person", an eminence grise backed by a permanent secretariat which would play an active role in the peace negotiations as the third sponsor.[17] It is true that the Conference took place in the capital of a member state in the EC. This may be a symbolic gesture on behalf of the US government, that it is not alienating the Europeans. However, the plenary inaugural session of the Middle East Peace Conference held on October 30, 1991 convened under US-USSR patronage. Participants are the delegations to bilateral negotiations (Israel, Syria, Lebanon, and the joint Jordanian-Palestinian delegation) and of other countries and regional organizations (Egypt, Saudi Arabia, the Gulf Cooperation Council [GCC], the Arab Maghreb Union [AMU] and representative of the European Community).

Eleven rounds of bilateral talks were held from November 3, 1991 until September 1993. All of them, except for the first round, were held in Washington. The EC role in the bilateral talks is totally nil as shown in the chronology of the talks.[18] (See Appendix). There were some attempts to host one of the rounds in Rome but they did not materialize. Hence, all rounds were under total American direction.

B. Multilateral Talks: January 1992-February 1993

Before reviewing different sessions of the multilateral negotiations, one feels secure to indicate that the EC major contribution to the peace process lies in this track. This part of the process launched from Moscow on January 28-29, 1992 comprises five working groups coordinated by a Steering Committee. The purpose is

to back up the bilateral phase in Washington, which remain the heart and driving force of the process. The Community and its member states have used the political cooperation to develop a "joint approach" to issues falling at once within the jurisdiction of the Community proper and within the political cooperation context. The Commission is playing a far more active role in this multilateral phase setting on the Steering Committee and taking part in all the working groups, although with varying status depending on the nature of the group concerned. Thus, the Community is the main organizer of the Regional Economic Development Group, coorganizer of the Water, Environment and Refugee Groups, and contributor to the Arms Control Group (midway between "extra-regional observer" and "participant" status, the latter being accorded only to the protagonists and the co-sponsors.[19]

Let us review the main rounds/sessions of the multilateral phase in order to grasp the essential role played by the EC.

January 28, Moscow: The multilateral phase of the peace talks opens. Besides the American and Russian sponsors participants are Jordan, Israel, Egypt, GCC and UMA and EC countries, Turkey, China, Japan, Canada. Syria and Lebanon boycott the round in protest at the lack of progress in bilateral talks. The Palestinian delegation does not participate in protest at the exclusion of representatives of the Diaspora. A steering committee (comprising the sponsors, the parties concerned and Egypt and Saudi Arabia) is appointed to supervise the proceedings of the five commissions due to meet in May. Procedures, dates and venues for later meetings are decided.[20]

It is interesting to disclose certain important positions adopted by the representatives of the EC.

1- They emphasized the importance of the Palestinian presence to the peace process.
2- They reiterated their commitment to the peace process.
3- They affirmed the significance of the UN presence as an institution.
4- The Commission represented the EC strategy, on economic development, refugees, water and environment and arms controls.[21]

May 11-29, Meetings of the multilateral commissions. Syria and Lebanon are still absent; Israel does not participate in talks on refugees

and regional economic development in protest at the presence of Palestinians of the Diaspora; Palestinians are not present at the talks nor regional security (only countries with armed forces are invited to participate).

May 11-29, Brussels: Regional economic development chaired by the EC; about 40 delegations participate.

May 11-13, Washington: Arms controls and regional security chaired by Russia; 21 countries participate in the private talks; an examination of the US-USSR Cold War experience; agenda dates established.[22]

May 13-14, Vienna: Water resources in the Middle East, chaired by the US and participants include experts and diplomats from 38 countries.

May 13-15, Ottawa: The refugee question, chaired by Canada with the participation of 35 countries. Palestinians urge the application of UN Resolution 194 (1948). It is established that humanitarian questions should be given priority (reunification of families, health, vocational training related problems).

May 18-19, Tokyo: Environment, chaired by Japan with the participation of 37 delegations. Assessment of a Japanese report on the state of the Middle Eastern environment.

May 27-29, Lisbon: Steering Committee meeting; Syria and Lebanon are urged to participate in the talks.

October 26-27, The Hague: Second session of multilateral talks on the environment.

October 29-30, Paris: Second session of talks on regional economic development; Israel participates but Syria and Lebanon are still absent. On the basis of a World Bank report on the economic situation in the Middle East, possible means of financing regional development are examined. The next session is scheduled for February, 1993 in Rome.

November 11-12, Ottawa: Second session of talks on refugees. In the absence of Syria and Lebanon, the first day is boycotted by Israel in protest at the participation of a member of the Palestinian National Council; discussions revolve around the question of the reunification of families; Israel judges this extraneous to human rights that do justify international attention.

February 9-10, 1993, Rome: Meeting of the regional economic cooperation negotiating group.

The main concerns of the EC in this regard are both the economic development in the area and the prohibition of the weapons of mass destruction as well as chemical weapons. Hence, the EC General Affairs Council recommends that members states coordinate for signing the Convention banning chemical weapons.[23] They ought to encourage other states including those in the Middle East to join signing the Convention.

C. *Bilateral Interactions with Israel*

On the basis of the Cooperation Agreement between Israel, the EC in 1975, a number of meetings took place between the two sides. The Council of Europe and the European Commission try to utilize these meetings in order to booster the Israeli commitments to the peace process and the respect for Palestinian human rights. To illustrate this point, in May 11, 1992 in a meeting between Mr. Levy the Israeli Deputy Prime Minister and Mr. M.J. de Deus Pinheiro President of the Council of Europe, the Commission reaffirmed its commitment to the multilateral negotiations. Mr. de Deus Pinheiro stated that the relations with Israel could not be considered in isolation from progress towards a lasting and equitable peace in the Middle East and recognition by Israel of the political role and the importance of the Community.[24]

In the eighth meeting between the two parties taking place on July 20, 1992, both sides expressed the hope that Israel would seize the opportunity to negotiate and reach equitable, fair and lasting settlement to the disputes over the Occupied Territories.[25]

In the eleventh meeting the Community indicated to Israel that the expulsion of 400 Palestinians from the Occupied Territories posed a serious threat to the peace process.[26] The negotiations between the two parties concerning creating economic area is negatively affected by this issue. Moreover, the Community sent different types of aid including wheat to the families of the expelled Palestinians in order to alleviate their hardships.[27] The Community used to link its financial contribution to Israel, and in this regard to other Middle Eastern States such as Syria, with the promotion of human rights and democracy.[28]

D. *The Palestinian-Israeli Accord and the Construction of Peaceful Environment 1993*

The signing of the Declaration of Principles and the Mutual Recognition Accord between Israel and the PLO in Washington on September 13, 1993 is a culmination of the European efforts through the Norwegian connection to reach a just and lasting peace in the Middle East. By so doing, the European perceive themselves as important actors in the peace process.

In order to maximize the momentum gained to their role, the foreign ministers of the member states to the Community decided at the eve of the signing the Accord to provide $600 million for the self-governing Palestinian bodies in both Gaza and Jericho. They also invited both Arafat and Rabin to Brussels.

The Europeans, I believe, will take the lead in the development of a peaceful environment conducive to reconciliation. They are calling for the Middle East Common Market. We have to remember that it was a paper presented by Abu Alaa or Ahmad Koreih, the Chief of the economics department of the PLO which opened the way for the recent accord. He distributed the paper in EC capitals as part of an aid appeal for mapping out a vision of future economic cooperation in the Middle East that would draw on the experience of the EC which managed to overcome enmity between historic forces France and Germany.[29]

In order to facilitate the establishment of Middle East Common Market, the Europeans see as a priority that it is important to devise a road network between the main urban centers of the region. The EC Commission is prepared to commission part of that work, i.e., a pre-feasibility study for a road link between the Turkish border and Egypt (the so-called coastal road).[30]

There are estimates between $4.3-6 billion development needs for the occupied areas for the next 10 years. The Americans, the Arab oil producing countries, the Europeans, the Japanese and others are to contribute to these needs. No doubt that the Europeans will be the first to do so.

Conclusion

Within the structural limitations developed in the last couple of years, the EC tried its best to be present at different stages of the peace

process in the Middle East. Sharing with the Middle East states the security concerns of the Mediterranean, the security of the international water passes, the ancient cultures and human concerns, the EC countries will not miss the recent opportunity to build more bridges with the new Middle East.

Notes

1. The seven member states are: Sweden, Norway, Finland, Austria, Switzerland, and Iceland.
2. For more details about EC 92 project: Walter Goldstein, EC: Euro-Stalling, Foreign Affairs, No. 85, Winter 1991-92, pp. 129-147.
3. Middle East Insight, Vol. IX, No. 5, July-August 1992, p. 16.
4. Financial Times, Sept. 3, 1993.
5. See: Major-General Ahmad Abdel-Halim in Seminar on The Future of the Arab European Relations, National Center for Middle East Studies and Friedrich Ebert Stiftung, Alexandria, Nay 15-17, 1992, p. 208.
6. Survival, Vol. XXXIII, No. 2, March/April 1991, p. 185.
7. Lawrence Freeman, "The Gulf War and the New World Order", Survival, Vol. XXXIII, No. 3, 1991, pp. 195-209.
8. Geoffrey Kemp, "The Gulf Crisis: Diplomacy or Force?" Survival, Vol. XXXII, No. 6, November/December 1990, pp. 507-517.
9. Lawrence Freeman, op.cit.
10. Survival, Vol. XXXII, No. 6, 1990, p. 560.
11. Walter Goldstein, "Europe After Maastricht, Foreign Affairs, Vol. 72, No. 5, Winter 1992/93.
12. Roland Dannreuther, "The Gulf Conflict: A Political and Strategic Analysis, Adelphi Papers, 264, Winter 1991/92, p. 58.
13. Ibid.
14. Declaration on the Middle East Peace Process, Annex D. 4, SN, 456192.
15. Federica Moroni, "Two Years of Negotiations", Dossier Cooperazione, Monthly of the Italian Ministry of Foreign Affairs, 18th year, No. 123, March 1993, pp. 12-13.
16. For the details of all rounds and sessions, see Ibid., and Middle East Insight, op.cit., pp. 18-21.

17. Europe Hebdo, No. 616, Monday, January 4, 1993.
18. Danial Shapiro, "A Chronology of the Middle East Peace Talks, MEI, op.cit., pp. 18-21.
19. XX11th General Report on the Activities of the European Communities, Brussels, Luxembourg, 1992, p. 290.
20. Federica Moroni, op.cit., p. 13.
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22. I believe that the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction signed in Paris 13-15 January 1993 and open for adherence is highly related to the Arms Controls issue in the Middle East. For the articles of the treaty: Survival, Summer 1993, pp. 172-74.
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25. Bulletin, Vol. 25, No.. 7-8, 1992.
26. Bulletin, Vol. 26, No. 1-2, 1993.
27. Europe-Hebdo, op.cit.
28. Bulletin, Vol. 26, op.cit.
29. The Washington Post, September 6, 1993.
30. For more details: Eberhard Rhein, Intra-Regional Trade: Kenote Speech, International Seminar on Middle East: Regional Cooperation Prospects and Problems, National Center for Middle East Studies, Cairo 29-31 March, 1993.

Appendix
A Chronology of the Middle East Peace Talks

The Madrid Conference
October 30 - November 1, 1991

After months of preparation, the Middle East peace conference got underway in Madrid, Spain. The talks were attended by Israel, Syria, Lebanon, a joint Jordanian-Palestinian delegation, and the American and Soviet co-sponsors. Also in attendance were representatives of Egypt, the Gulf Cooperation Council, and the European Community. President Bush and Gorbachev address the conference.

The speeches of the heads of the delegations were greeted with a mixed response. By most accounts, Palestinian head Haidar Abdel Shafi delivered the most conciliatory speech, and Syrian Foreign Minister Farouk Sharaa the least. Each delegation head sketched his party's reasons for attending the talks and requirements for a settlement. After delivering his second address on the final day, Israeli Prime Minister Shamir abruptly left the conference without hearing the speeches of others, in order to be back in Israel before the Sabbath. A date certain for the next round of discussions is not set, but each of the parties makes it clear that it wants to attend future negotiations.

Round One, November 3-9, 1991

The first round of direct bilateral talks began in Madrid as three separate Israeli delegations meet face to face with their Syrian, Lebanese, and Palestinian-Jordanian counterparts. The Syrian and Lebanese talks nearly collapse, but after intense lobbying by a combination of Egyptian, Saudi, and American interlocutors, the talks began. Over the next several days little is accomplished. The Israelis and the Jordanian-Palestinian delegation agree to exchange proposals for Palestinian autonomy in the West Bank and Gaza. In the Syrian and Lebanese tracks, all sides basically restated their positions and little movement was made.

Round Two, December 10-18, 1991

The United States has invited the parties to begin this round of talks in Washington on December 4, but Israel argued that the talks

should be held in the Middle East and refused to send its delegations until the 10th.

Once the talks begin, each track took on a different character. The Lebanese track appears to be the most substantive, with Israel saying it has no territorial claims on Lebanon, and Lebanon accepting the goal of a full contractual peace. The Syrian track is less fruitful. The two sides lay out their conflicting interpretations of UN Security Council resolution 242, and discuss the relationship between territory and peace.

The Jordanian-Palestinian track never got off the ground. The Palestinians and Jordanians want to split into two separate delegations, but the Israelis say only a single delegation is consistent with the Madrid formula. Each side refuses to enter the negotiating room until the dispute is resolved, and they spent the week sitting on couches in the corridors of the State Department.

Round Three, January 13-16, 1992

This round was scheduled to resume January 8, but the Arab delegations boycott the talks to protest Israel's deportation of 12 Palestinians from the occupied territories. This time, Israeli delegates arrived in Washington on time and emphasized their presence and the Arab's absence. When the talks resumed on the 13th, a compromise was reached between the Israelis, Palestinians, and Jordanians that allowed them to begin actual talks. A two-track formula was constructed in which Israel will negotiate with one delegation composed of nine Palestinians and two Jordanians, and with another delegation nine Jordanians and two Palestinians. In the Jordanian track, the two sides discussed their respective visions of a peace agreements and their relations thereafter.

The Palestinians presented an outline of their plan for a Palestinian Interim Self-Governing Authority (PISGA). It called for a 180-seat legislative assembly, elected by Palestinians in the West Bank, Gaza, Jerusalem, and those who have been deported or displaced since 1976. It required a phased withdrawal of the Israeli army from the West Bank and Gaza, to be replaced by a Palestinian police force and UN peace keepers, and an Israeli settlement freeze.

Round Four, February 24 - March 4, 1992

The Israeli delegation elaborated on its concept of interim self-government. Its plan allowed Palestinians to control their own affairs in twelve areas, including agriculture, education, economic development, and health care. But it also allowed for continued Israeli settlement and left the Israeli army solely responsible for security, except in local police matters. The Palestinian delegation rejected the plan as "not serious". In the Syrian talks, Israel says it is open to the ideas of new borders with Syria, but not a total return to the 1967 borders. Syria, however, insisted on the return of the entire Golan as a prerequisite to any peace agreement. Israel and Jordan began to discuss a common agenda for the peace talks and the possibility of forming subcommittees on issues like water, energy, and the environment.

Round Five, April 26-30, 1992

Secretary of State Baker was able to convene this round of talks despite Arab misgiving about negotiating so soon before the Israeli elections. Some degree of progress was detectable on the Syrian track, where the two sides exchange papers they hope will lead to a joint declaration of principles.

Less progress was evident on the Palestinian track. Israel proposed holding municipal elections in parts of the occupied territories. The Palestinians were dissatisfied with the idea of municipal elections and label the plan "a public relations exercise". The Palestinians offer a counter-proposal, which included elections for a Palestinian legislative assembly, the abolition of key military decrees which restrict Palestinian control over laws, land, and water in the West Bank and Gaza, and Palestinian access to public records on population and land ownership.

Jordan and Israel continue working toward a common agenda, concentrating on water and confidence-building measures in the area of security. Both the Jordanian and Lebanese tracks seemed to be much easier to solve than the other two, but most observers expect them to be solved only after the Palestinian and Syrian tracks are settled.

Round Six, August 24 - September 24, 1992

Despite plans to hold this round in Rome, the talks - the first since Yitzhak Rabin was elected Prime Minister of Israel - resume in Washington. The most significant impact of Rabin's election appeared to be a change in the atmosphere of the Israeli Syrian talks, due in part to Rabin's replacement of the hardline head of his delegation, Yossi Ben Ahron, with the moderate academic, Itama Rabinovich.

Several important developments occurred on the Syrian track. The parties stated their agreement that all parts of resolution 242 apply to their negotiations, and endorsed the principle of simultaneity of withdrawal and peace. They agreed on the goal of a "peace agreement" as the final product, with the understanding that it must include "mutual security agreements". But differences remained: Syria did not spell out the nature of the proposed peace and Israel did not explain the extent of the proposed withdrawal. Israel proposed the parties pursue an interim agreement, but the Syrians insisted on a comprehensive settlement.

Some progress was made on the Palestinian track. Israel presented a new PISGA proposal, which included the election of administrative councils responsible for most areas of governance of the occupied territories. The Palestinians called the proposal unacceptable but negotiable, and then submitted their own ten-point framework for self-rule. Following a ten day break in the talks the two sides agreed to the creation of working groups on human rights, self-government, land ownership, and water.

Round Seven, October 21 - November 1992

Considerable progress was made on the Jordanian track. The two sides announced that they have reached agreement on an agenda for the talks. The agenda listed refugees, arms control, territorial disputes, security, and water, as the primary issues for discussion, and included the first mention of normalized relations and a peace treaty as the goal of the talks.

Palestinian-Israeli talks inch along: the Palestinians detail a number of human rights issues they wanted to discuss and present a list of twelve demands, including: free travel to Jerusalem, free movement in the West Bank and Gaza, an end to the night-time curfew in Gaza, and an end to illegal tax collection. Discussions continued over human

rights and PISGA proposals. The Palestinians rejected an Israeli plan in which the army would cede military authority in West Bank towns to local police forces, saying it would not satisfy their demand to have a unified Palestinian authority for all of the territories.

Tensions rose in the Israeli-Lebanese talks when Israel informed the Lebanese that it will "make life intolerable in Lebanon" if Hesbollah continues to bomb targets in northern Israel. The Syrian track does not produce the results some hoped for after the first round. Unable to reconcile their conflicting draft statements of principles, the Israelis and Syrians actually ended their talks a day early, citing lack of progress. Frustrated by the stalemates, at the conclusion of this round the Arab delegations said they may pull out of the talks if there is no sign of progress early in the Clinton administration.

The Palestinians, in particular, seek greater US involvement in the talks, in the form of forcing the parties to stick to the timetable laid out in Madrid. As the timetable has not been met, the Palestinians had also asked to renegotiate the Madrid ground rules.

Round Eight, December 7-17, 1992

Since this is the last round during the Bush administration, US officials set specific goals for each track: an Israeli-Syrian joint declaration of principles, and Israeli-Palestinian agreement on a negotiating agenda for self-government, an Israeli-Jordanian finalization of the framework for a future agreement, and the establishment of an Israeli-Lebanese military committee on security issues.

Israelis and Palestinians began to narrow their differences on an agenda and continued to discuss the nature of self-government. Israel offered a new proposal which included a tripartite land management system (autonomy for Palestinian lands, Israeli control of settler and army lands, and joint management elsewhere), and a divided judicial system (criminal and civil cases in Palestinian courts, security cases in military coats, and cases involving settlers in Israeli courts). But the increasing violence and deteriorating situation in Israel and the territories has made concessions by either side nearly impossible.

Israel and Syria continued to work on a joint declaration of principles, as they had for the last three rounds. The Jordanians and Israelis agreed that a bilateral water agreement will precede a peace

treaty, but otherwise little progress was made. This round ended on a discouraging note, as the Arab delegations boycott the last day of talks in response to Israel's expulsion of 415 Hamas activists from the occupied territories.

Round Nine, April 27 - May 13, 1993

The expulsion of 415 Hamas activists and the slow start of the Clinton administration combined to delay the start of the round. Intensive lobbying by the United States and its Arab allies finally brought the sides back to the tale with addition of Faisal al-Husseini to the Palestinian delegation.

The Palestinian-Israeli talks were deadlocked with Palestinian delegation head Haidar Abdel Shafi accusing the Israeli government of lacking integrity. The Israelis questioned the seriousness of the Palestinian negotiators and complaint that no one in the delegation can make a major decision. The major conflict centers over the Palestinian desire to discuss the status of Jerusalem, Israeli withdrawal, and Palestinian self government in the interim agreement. The United States last minute submission of declaration of principles was rejected.

The Syrian track, meanwhile, showed evidence of progress as both sides described "serious, in depth, and detailed" discussions having taken place on the issues of security and normalization. While real progress was reportedly made, the Syrians put the brakes on the talks as soon as they saw the Palestinian negotiations bogging down.

Round Ten, June 15 - June 30, 1993

The Arab delegations continued to complain that the American administration is showing favoritism toward Israel. There is no progress on any of the tracks, though the outlines of a settlement seem to be in place between Israel and Jordan. The Palestinian delegation still cannot agree on a response to a US-sponsored declaration of principles, though they say - at the end of the talks - that they will reject it out of hand without a response. As the talks conclude, it is uncertain whether the United States will be able to get them started again although US Secretary of State Warren Christopher is rumored to be planning a major trip to the region.

EIGHT

THE EC AND GULF SECURITY

8 The EC and Gulf Security

Dr. Ahmed Youssef

Despite the indisputable vital interests of the EC in the Gulf, both international and intra-EC constraints make the EC role in Gulf security a marginal one. The beginning of this marginal role could be traced to the early seventies when Britain, due to both home and intentional considerations, had put an end to its military presence in the Gulf. Even prior to that time it was Britain and not the EC that played the leading role in preserving Gulf security.

This paper is limited to analyzing the EC role in Gulf security. The analysis does not include different policies adopted by individual members to the EC as these policies do not rise to the standard of a coherent policy. However, these policies would be dealt with, but not as indicators of an EC policy. In fact, they are indicators of the lack of such policy.

To verify the main hypothesis in this paper about the EC marginal role in Gulf security in the present time, this paper is going to deal with two issues:

1. Interests and constraints
2. Elements of current policy

1. Interests and Constraints

As mentioned before the EC interests in the Gulf are extremely vital. EC countries are dependent on Gulf oil and GCC countries present a very important market for EC exports. In addition, there are potential interests of the EC with both Iraq and Iran specially when interactions in the area come back to normal.

Examining the present state of EC GCC trade relations gives proof to such analysis. The volume of trade between the EC and the

GCC countries is considerable. In 1991 trade increased despite the Gulf war. Exports from the GCC to the community rose by 21 percent. The Community is the GCC leading supplier and had (in 1991) a trade surplus of ECU 3.3 billion. The community's trade surplus for the first eleven months of 1992 totaled almost ECU 5.3 billion. The GCC states are the Community's fifth or sixth largest export market accounting for 4 percent of the Community's total exports. Their importance to the Community is reinforced by the fact that they provide more than 20 percent of world oil production and hold more than 45 percent of the world's known oil reserves. The GCC is the source of 35 percent of the oil on the international market. A fifth of these countries' exports goes to the Community.

Such a volume of trade with oil as the most important item in GCC exports to the EEC countries, may open the door for a conflict of interests with other major powers acting in the Gulf area including the USA. Despite the previous facts, the EC's role in preserving Gulf security remains marginal. This could be explained by two main constraints relating to the EC as a world power. First is the deterioration of Europe's role in world affairs since World War II, where shortly after the war it became clear that the USA had stepped in Europe's (and more specifically Britain's) place in world affairs.

The Suez campaign in 1956 might be looked to as the last European shot in the struggle for a world role at the time. The development of the whole crisis and the American role in its management had decisively proved the new pattern of leadership within the international system. It is very significant that the Rome Treaty was signed a few months after the end of the Suez affair. Since that time the EC countries, that have doubled in number from 1957 up to the moment, were very successful in building a new Europe. However, this success was mainly economic. In other words, the EC as an entity and not as individual members is still lacking in political and military capabilities. Thus, all the diplomatic statements adopted by this organ always lacked the necessary power base to be translated into real political influence. While the USA, as a world power, has more or less deteriorated (at least due to the emergence of new centers of power), it remains the leading actor in world affairs that possesses all elements of power required for a world leader.

The second constraint on the EC world role is the EC structure in itself. The EC now includes twelve members with different foreign policies. At least the foreign policies adopted by the member states could be classified into two categories. There is on the one hand the pro-American approach (the British case is a clear example) and on the other there is the European approach which aims at developing and enhancing a real independent European policy (adopted by countries such as France, Germany and Italy). This situation impedes the development of a unified European foreign policy. It is true that the EC did manage to develop unified independent attitudes towards certain issues; the Arab-Israeli conflict is one example. However, it was a slow motion, and sometimes pendulous, process. More important, it never had a considerable influence on conflict management either because of the lack of relevant instruments or due to the unwillingness to interfere.

2. *Elements of Current Policy*

In view of the previous analysis it is difficult to refer to a clear-cut EC policy towards Gulf security, let alone an effective one, either because of the status of the EC as a secondary leading power in world affairs or due to the lack of coherence in the foreign policies adopted by the member states.

Although this paper is supposed to be limited to the analysis of the EC policy towards Gulf security after the end of the war in early 1991, it would be significant to have a look at the EC's reactions to the Gulf crisis and war between August 1990 and February 1991. Those reactions had clearly reflected both EC interests and constraints in the Gulf area. In addition, EC reactions during the crisis up to the war contained the early indicators of an EC formula for Gulf security. During the crisis the EC easily developed an immediate diplomatic position towards the crisis condemning the Iraqi forces and supporting all the relevant resolutions adopted by the Security Council.

However, in the process of translating statements into actions there was a variety of EC policies. Britain on the one hand adopted a policy that was in the final analysis similar to the American policy. Accordingly, Britain refused to acknowledge any link between the resolution of the Kuwaiti crisis and the settlement of the Arab-Israeli conflict. On the other hand, France, Germany and Italy (among other

EC countries) opted clearly for a diplomatic solution again with varying versions. French diplomacy and particularly the French President played an important role in trying to find a diplomatic outlet. Moreover, Mitterand's initiative emphasized the link which Britain refused to acknowledge. His plan represented to the UN on 24 September 1990 consisted of several stages. First, it called for the pull out of Iraqi forces from Kuwait and the withdrawal of foreign forces from the Gulf. Then, it suggested an international conference to deal with the settlement of the Lebanese and Palestinian issues. The final stage was supposed to concentrate on the reduction of arms in the Middle East. Thus, the link was further stretched to several issue areas. The unanimity requirement in the Council of EC ministers was a main obstacle of such an initiative to be adopted by the EEC. However, when it was clear that war became inevitable, France participated in the war efforts clearly motivated by its desire to have a say in the post-war arrangements. Due to the constitutional constraints of Germany, it did not participate directly in the war efforts. Yet, it financed them heavily. Italy refused to send ground troops, while countries like Ireland and Greece confined themselves to moral support.

The common strategic interests which put both the USA and the EC on the same side of the confrontation did not prevent the emergence of secondary contradictions between the American policy and the EC policy (or policies) with the exception of Britain. This was clear for example with regard to two issues: the linkage between the Gulf crisis and the Arab-Israeli conflict and the guarantees for Iraq's safety in case of a complete Iraqi withdrawal from Kuwait. In fact, these different approaches were a part of a wider disagreement regarding the crisis management and EC preference of a diplomatic solution (with the exception of Britain. The war simply meant that the USA would have the upper hand in an area of vital interests to the EC.

Therefore, if the EC had participated actively in the diplomatic efforts to reach a compromise and called for a more active role for both the UN and the Arabs in preserving Gulf security, this would have helped to minimize the American role. The eruption of war and the leading role played by the USA in the war efforts proved the validity of the argument concerning the marginal role of the EC in Gulf security.

In the post-war events it is very difficult to refer to a coherent EC policy towards Gulf security. One may try to draw a sketch for such policy. Sources of analysis would be the general outlines of the EC positions during the Gulf crisis and war, some official statements, whether by individual member states or by EC organs and an analysis of several articles published in European newspapers (mainly French, German and British).

It could be easily noticed that the most important characteristic of the EC approach towards Gulf security is comprehensiveness. This comprehensiveness includes both the actors involved in any security arrangements in the Gulf and the issues dealt with in such arrangements.

With regard to the actors many EC officials were more than clear that sustainable security in the Gulf area must be a part of wider arrangements for the whole region. These arrangements should not be imposed on the region from outside. The regional actors themselves including Iraq and Iran are supposed to play a role in formulating such arrangements. Meanwhile, the important international roles of the USA, the EC, the USSR (before its disintegration) and the UN were not excluded. In real politics terms if this formula were to be materialized, it would have constrained the USA influence in this sensitive area of the world.

With regard to the issues, EC sources generally stressed the non-military dimensions of security more than other actors, the Americans for example. The EC perception of security in the Gulf included some "revolutionary" ideas such as the need for a redistribution of wealth, the necessity of enhancing democracy and the importance of a balanced development in the region. In addition, it was clear since the war days that the EC felt the urgency of achieving specific progress towards a peaceful settlement of the Arab-Israeli conflict. It is clear that the EC in general is much more aware of the real elements that should be reflected in any sustainable security formula for the Gulf.

Unfortunately, according to the previously mentioned constraints, this formula had no chance to materialize. Again individual country-by-country approach had prevailed and a number of EC countries participated in the bilateral security arrangements in the Gulf. These agreements do not rise to the level of the comprehensive approach previously discussed. They may even contradict it.

Although this paper had argued that international and European constraints had led to the secondary role played by the EC in Gulf security among other issues, I think that the potential is there for developing a more active and effective EC role not only in the Gulf but in the whole Middle East. The heavy-handed American policy in the region is now a liability rather than an asset for the USA. In the short run, with a steady enhancing of European mechanisms for action and a better understanding of the just aspirations of the peoples of the region, the EC can assume a more important role in Middle Eastern regional politics. On the long run I think that Europe, mainly through the EC would have the capability to restore a leading role in world affairs as a whole.

NINE

THE POLITICAL ECONOMY OF EC RELATIONS WITH THE GULF STATES

9 The Political Economy of EC Relations with the Gulf States

Dr. Saleh A. Al-Mani

This paper seeks to study the development of economic and political relations between member states of the European Community and the countries of the GCC, since 1985 to the present time.

The first part analyses the setting and evolution of economic relations between the two sides since 1985; studying the evolution of trade, investment and military sales as cornerstones of this relationship. The second part addresses EC tariffs and the imposition of the carbon tax as a major impediment to the normal flow of petroleum products from the Gulf states to Western Europe.

It is the thesis of this writer, that within the context of the low growth of demand for oil, and continuous political and military instability in the Gulf area, the imposition of this tax would present the Gulf states with difficult choices that may impair those countries ability to sustain current economic growth and maintain their political and social stability they enjoy today.

I. The Setting of Economic Relations between the Two Blocs

The relationship between the EC and the Gulf states is old, and varied and has historically been linked to the ability of the Community to have access to guaranteed sources of energy for continued growth of its markets and stability and competitiveness of its industries. The Gulf states on their part have sought to maintain their access to close markets for their petroleum and petrochemical products, as they

considered the EC, their most important trading partners taking some 13.61 of their oil exports. In their attempt to increase their cooperation and internal integration, the countries of the GCC have, since 1980, sought to emulate the European experiment in economic and political integration, without, necessarily closing their doors to external, sources of goods and services, as the European community has tended to limit external imports and keep away some commodities from European consumers, through a process of trade diversion.

However, the relationship between the GCC and the EC has undergone major structural changes in the 1980's. European dependence on oil imports from the Gulf region has waned considerably. The Community's energy policy has tended to diversify sources of supply and to avoid undue reliance on major imports from the Gulf region and dependence on its oil. There were many factors that went in the planning of such a a policy., chiefly among them is the fact that despite the existence of enormous resources of oil in this part the world amounting to 46 percent of world reserves, the political conditions and milieu surrounding the oil states were explosive indeed. During the decade of 1980-1990, the Gulf region witnessed the eruption of two major and costly wars. Despite fears of oil supply interruptions, oil flow did not cease. Even during the height of the Iran-Iraq war, oil continued to flow at very low prices. Wars in the region did not adversely affect the supply and prices of oil in the long run but one may argue that the oil industry has been clever in maneuvering to avoid any major supply shortfalls, through source replacement.

Since the time of Mosaddeq, the oil industry has been skillful in securing an oil supply replacement in the same region, to quench the thirst of Western consumers for oil. Oil producing states, even in the midst regional crises sought on their part to find an outlet, through different routes and ports, for this resource is the main stay of their economies, and the financing of civilian and commercial projects.

The experience of both Iraq and Iran during their long drawn campaign in the 1980's is illustrative of this point. The Iraqis first attempted to use Kuwaiti ports to export their crude, and later on with Saudi help they built two major pipelines that link their oil fields with the Trans-Arabian peninsula pipeline that runs from the Eastern Saudi oil fields to the Red Sea. The Iraqis also built another major oil

pipeline that linked their Northern oil fields to the Turkish port city of Ceyhan, on the Mediterranean. Iran on its part, first truced its oil products and alter on constructed a major oil pipeline to the port terminals of Qeshm Island on the Gulf of Oman.

During the second Gulf war and despite temporary shortfalls and price increases, other Gulf states particularly Saudi Arabia and the UAE increased their production to compensate for the loss of Iraqi and Kuwait production. For forty years, oil producer replacement had been and continues to be an important economic tool in which the oil industry adjusts for temporary loss of a major oil producer.

Upon analysis, the argument for oil source insecurity, in the long run, does not hold much water. Yet, the EC continued to seek diverse sources of energy in West Africa and in the former Soviet Union to alter its previous reliance on imports from the Arab Gulf states. Other structural factors were also affecting oil imports to the EC and to other Western countries, as these countries were seeking to conserve their energy use. The increased reliance on small cars, and continued regulation of the automotive industry to build small engines that use energy, and recently to rely on attractive sources of non-fossil fuels, continued to press upon the consuming public to use less oil. Increased taxation on imported oil by national and local authorities encouraged people to use public transport in aversion to the use of automobiles as major means for transportation. Most of these structural changes allowed the EC to alter its relationship with the Arab states of the Gulf. While the Gulf states continued to increase their appetite for European goods and services, and refuse to reconsider or review the basis of their relations with European. The old reliance of the Community on oil exported from the Gulf, has been replaced by a new reliance on European markets as a major outlet for exported oil natural gas and petrochemicals on the part of GCC states.

A. Trade Relations

Historically, the EC market has been one of the most important outlets for Gulf oil and chemical products. In 1991, trade with the EC represented one-quarter of all GCC external trade. Forty two percent of GCC imports in 1991 originated from EC sources while 13.61 percent of its oil and petrochemical exports went to the EC. Trade with the GCC countries represented something like 4.9 percent of total

EC trade with the outside world in 1991 which is almost equivalent to the importance of the Japanese market for the EC.[1]

The Gulf states' role in the international economy waned during the second half of the 1980's due to declining oil prices. The collapse of oil prices in 1986 cost the GCC states something like $22 billion dollars in oil revenues in one year. Total exports of oil fell from a monetary value of $102 billion in 1985 to $80 billion in 1986.[2]

Exports were helped by rising short term demand, and by fears of oil supply shortage, during the second Gulf war. Exports had a reprieve in 1990 and 1991. Total GCC exports in 1991 were estimated to be 131 billion. Deteriorating demand for oil as a result of a slowdown in industrialized countries since then may have forced those levels of exports downwards.[3]

Table 1
Exports and Imports of the GCC with the EC (1985-1991
(In US $ Billion)

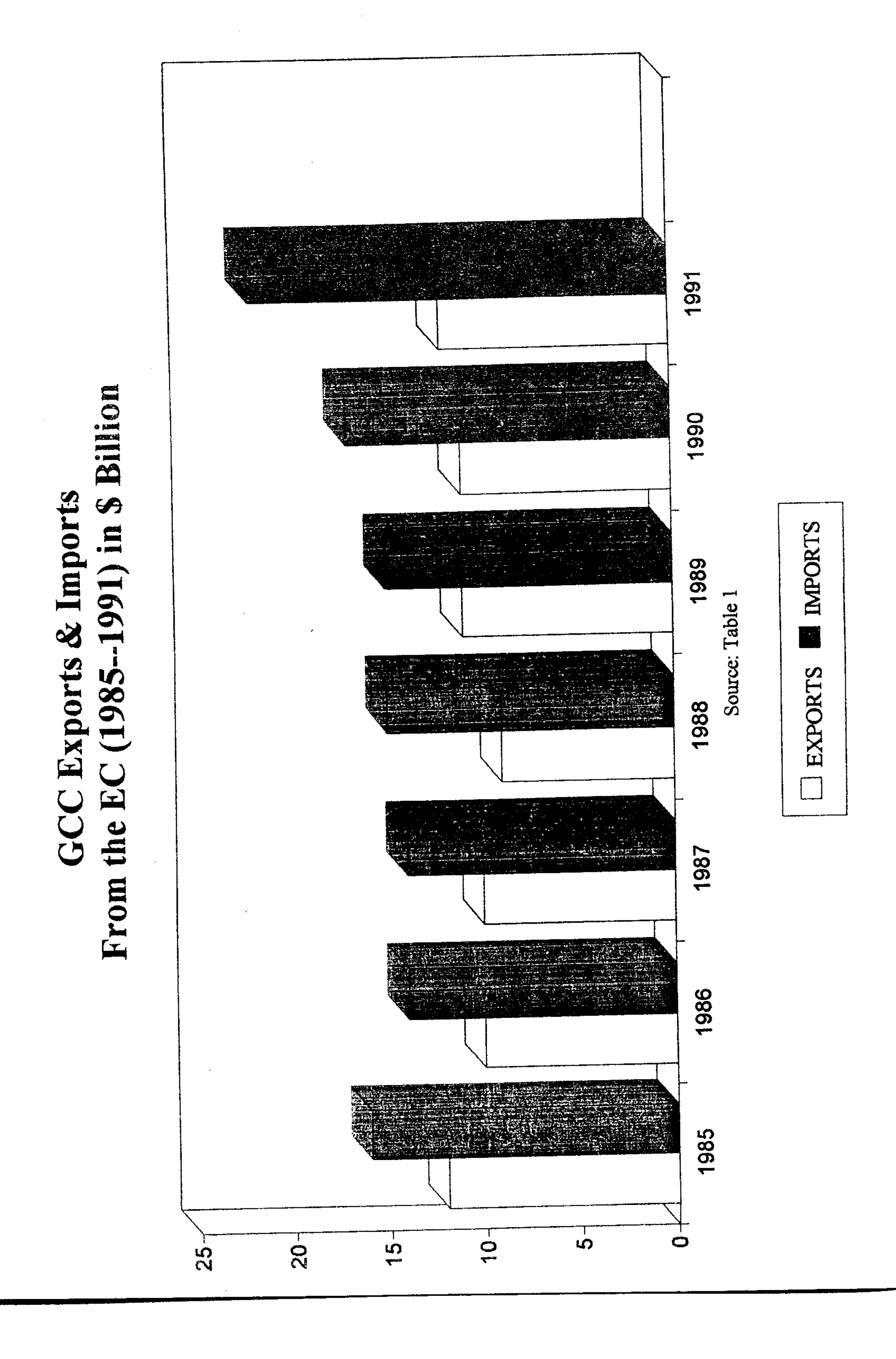
Year	Exports	Imports	Total Exports	% of Export to EC
1985	11.91	16.30	61.61	19.33%
1986	9.73	14.37	44.10	22.06%
1987	9.96	14.04	52.02	19.15%
1988	9.23	14.84	52.60	17.55%
1989	10.34	15.17	62.01	16.68%
1990	10.87	18.46	78.67	13.82%
1991	11.76	22.37	86.41	13.61%

Source: GCC Economic Bulletin, Vol. VII, 1992, Tables 18, 19 IMF Direction of Trade Statistics, September 1992.

Table 2
Volume of GCC Oil Exports to the EC (1973-1991)
In 1000 Metric tons

Country	1973	1980	1985	1987	1989	1990	1991
Bahrain	0	0.12	0.16	0.16	0.2	0.2	0.15
Kuwait	133.37	63.81	22.98	40.92	47.77	31	4.3
Neutral Zone	26.43	26.22	16.01	13.87	14.7	10.8	4.7
Oman	14.58	13.92	22.48	24.38	28.87	30.51	31.85
Qatar	27.49	22.61	14.1	15.79	17.35	16.86	16.8
Saudi Arabia	338.18	467.34	116.39	190.62	181.85	248.7	340.95
UAE	72.42	85.43	56.6	64.52	90.47	101.4	115.88
Total	612.47	679.45	248.72	350.26	381.21	439.47	514.63

Source: International Energy Agency (IEA), Energy Statistics and Balance of Non-OECD Countries (1990-1991). Paris: OECD, 1993, pp. 28-29.



Source: Table 1

The decrease in demand for oil in Europe was felt at the gas pump. Statistics provided by the International Energy Agency, show that the GCC states were able to market 679.47 thousand metric tons (tMT) in 1990, this figures decreased to 248.72 (tMT) in 1985. With stimulated short term demand for oil after 1986, the volume exported by the GCC to Europe almost doubled in 1990 to 439.47 (tMT) and to 514.63 (tMT) 1991.[4]

Thus while the level of oil exports to the Community doubled since 1985, the monetary value of those exports in 1991, remained less than those of 1985. The monetary value of those exports in 1985 were at $12 billion. Thus, for twice the volume of GCC oil, EC consumers paid in 1991 (before taxes) $11.759 billion or less than what they paid in 1985 for half the volume of oil changes in the terms of trade for the Gulf states with the European Community deteriorated since 1985. Prices for Gulf light oil declined since then by 40 percent while GCC import prices for industrial commodities originating in Europe increased by 17.8 percent. The only bright spot in export prices for the GCC is in the petrochemical products, whose prices index increased by 26 percent during the same period.[5]

The EC attempted during the same period to minimize its dependence on Arab Gulf oil supplies. It has limited its imports of oil in 1991 to 441 (tMT) which is almost one-third of its 1973 imports. Despite the growth of the industrial sectors of European economy during the past two decades, the EC has deliberately decreased its dependence on Arab Gulf imports from a high of 46 percent twenty years ago to a level of 15.6 percent in 1991.

The trade balance between the GCC and EC member states continues to show a trade gap of $10.63 billion for 1991 in favor of the EC which is an increase of three billion dollars than the previous year.

B. Investment Flows

During the early part of the 1980's, the member states of the GCC, were accumulating surplus funds, building cash reserves, and investing their surpluses in the short term capital markets in Europe, and in portfolio investments. GCC states, traditionally, have shown direct investment and favored investments in real state and in the banking sectors. While their investment in the former was successful,

investment in banks, proved disastrous, such as the BCCI scandal testifies.

In the latter part of the 1980's, most of the GCC states were drawing down their investment and financial reserves in Europe to finance their budget deficits given the financial burdens created by the second Gulf war, and absence of any measurable internal tax structure. They were forced to borrow heavily from local capital markets, and turn sometimes to international markets for loans and credits. Public spending increased in most Gulf states except for Oman.

In 1990 total GCC government revenues (except Kuwait) reached US $61.4 billion, while their government expenditures reached US $79.9 billion, a deficit of US $18.5 billion. Saudi Arabia was forced to finance a budget gap of US $8.3 billion in 1992, and Kuwait had also to finance a budget gap of US $18 billion (which does not include the second Gulf war Kuwaiti commitment of US $10.3 billion).[6]

Statistics published by the UN Investment Register shows largely negative withdrawals of the Gulf states investments from most of the European countries, with the exception of Spain, Portugal, and Italy. Recent Gulf investments in these countries have largely been in the refining sector, and it was pursued on bilateral basis, with no EC commission's involvement.

Most GCC states have set up joint bilateral economic commissions with the important EC member countries, and signed tax treaties with those states. Available statistics suggest also that direct Saudi investment stock in Portugal in 1989 equaled 2350 million Portuguese escudo (or $18 million) its direct investments in Spain also reached 622 million pestas ($16 million) in the same year. Kuwaiti direct investments in Spain stood in 1989 at 10400 million pesetas ($100 million). Other indirect investments channeled via the London-based Kuwait Investment Office could have reached US $2.5 billion).[7] Unfortunately those investments were besieged by corruption and scandals during the Gulf war. The courts in Europe and in Kuwait are currently looking into these mismanagement cases. Other investments by the Kuwait Investment Office in London totaled thirty six billion dollars in ten years (1981-1991).[8] The only bright spot in bilateral investment flows has been the springing of joint venture companies in the Gulf states, which combine technical and managerial European

know how with local finances. Table 3 gives a breakdown of the European companies engaged in joint venture production in Saudi Arabia. Data for other GCC countries is unfortunately not available.

C. *Military Sales*

Any meaningful discussion of European Community economic relations with the GCC is bound to partially address the European military sales to the Gulf states, because of the great importance attached to issues of security and deterrence through arms procurement in the Gulf region, and since the military industry in Europe is large and provides jobs for more than one and a half million persons through the Community.[9]

There is however one caveat that must be born in mind and it relates to article 223 of the 1958 Rome Treaty which excludes security issues from the competence of the European Communities. There has however been several attempts by the EC Commission to abolish this article. The European Council has also been engaged since 1987 in enforcing arms embargoes against several states, three of which are in the Mashreq region. There has also been several attempts since 1991 to draft a treaty on common foreign and security policy within the work on the Conference on Political Union or what has become known as the Maastricht Treaty. It is expected that such a treaty would transcend national legislations on arms trade regulations, and establish a single entity to oversee the armament industry within a united Europe.[10]

With this circumspection in mind, one must not underestimate the value of arms trade to the economies of several European states such as the UK where it provides 600,000 jobs, and to France, where it provides 250,000 jobs.[11]

Further, the military industry transcend national borders and carry out its production of a military system, from components manufactured in more than a single European country, (e.g. the European Fighter Project). Due to low demand and reduced military expenditures by NATO countries many European companies were forced during the past few years to restructure, merge or become a transitional entity to cut production costs.[12]

In the period between 1987 and 1991, the European countries have sold more than $30 billion in arms and major conventional

weapons worldwide. This is equal to 17 percent of world arms sales. Of this figure, \$7.558 billion were spent by GCC states on arms imported from Europe. This figure equals one fourth of all EC arms manufacturer's sales.[13]

Historically, France has had a lion's share of sales to the Gulf region. Britain, however, since 1987 had overtaken the prime spot enjoyed by France in this region. And while France continues to sell navy equipments and ordinances to Gulf states, it is Britain which has been clinching major fighters deals.

Table 3
Saudi European Joint Venture Companies (1992)
In Million Saudi Riyals

Country	No. of Companies	Whole Capital	Paid in Capital of the Foreign Co.	Percentage of the Foreign Partner
Germany	62	1074	265	14.63%
France	65	1637.5	687	25.00%
UK	120	1440		
Holland	41	875.5	455.3	41.00%
Italy	39	5359	417.6	37.00%
Greece	10	124	37.2	

Source: Saudi Ministry of Industry, Foreign Joint Venture Statistics, 1992.

The British three deals concerning the sale of Tornado fighters to Saudi Arabia which amounted to \$13.5 billion since 1986 have indirectly helped German, Italian and Spanish firms and contractors that produce parts of this plane or provide the accompanying services.

There is still a division of labor among European manufactures in providing the required ordinances in any given Gulf states. The air force is largely supplied by the Americans or the British, the small Gulf navies are mostly French made and the tank force is mostly supplied by the Americans, the British, French, and even the Germans. British and French principals usually try to engage in each armament sale abroad. The Germans have traditionally kept a low profile in this region, due to constitutional and political problems. With the end of traditional hostilities between Israel and its neighbors, it is expected that the Germans would relax their former restricted arms sale policy.

Table 4 shows that the UK is the largest arms merchant in the Gulf region followed by France, Italy and Germany. Since 1991, the United Kingdom has clinched another Tornado deal involving the sale of 48 aircrafts to Saudi Arabia in January 1993. The cost of the new deal is around $6000 million. This deal would revive the shaky economic performance of British Aerospace Corporation which is the main contractor, and would provide 19,000 jobs in the UK alone. This deal came only few months after (GIAT) of France sold 463 of the de clerk tanks to UAE at a cost of $4000 million.[14]

Table 4
European Armament Sales to the GCC States (1987-1991)
In Million Dollars

Country	Total Sum
UK	4027
France	2708
Italy	340
Germany	433
The Netherlands	50
Total Europe Sales to GCC Countries	7558
As % of Total Europe Arms Sales	17%
USA Arms Sales to the GCC States	3067

Source: SIPRI Yearbook, 1992, Table 8B.3

The Omanis are also said to be interested in purchasing the British made Challenger 2 tanks, built by the Vickers group.[15]

As the GCC states increase their expenditure for acquiring weapons systems, their annual outlay of $1500 in European defense system purchases, would most likely tend to rise in the coming few years.

II. The Impact of the Proposed Carbon Tax on the Development of GCC Economies

A. *The Proposed Carbon Tax*

In the Spring of 1992, a new problem in the relationship between the EC and the Gulf states erupted, in which the EC member states proposed a new EC - wide oil tax to be imposed on oil consumption in

addition to existing taxes effecting European consumers. The policy came out as an outcome of the Community's environment policy, and the Commission's decision in October 1990 to stabilize carbon dioxide emissions in the year 2000 to the 1990 levels. The Commission submitted a proposal for an energy - CO_2 tax. This tax was in response to the EC Council of Ministers meeting of 13 December 1991, to put forward proposals for environment protection.[16]

The Commission argued that without an energy tax, carbon emissions in the Community would increase by 6.5 percent by the year 2000. It also argued that the introduction of the tax would almost wipe out any anticipated increases in carbon emissions and permit the community to maintain 1990 levels, in the year 2000. The Commission also argued that the reduction in demand for energy and improvement in efficiency in cars, homes, and factories would limit the year 2000 external oil imports to almost 85% to its 1991 levels.[17]

It proposed a monitoring scheme that would link economic growth in certain affected countries with the imposition of the energy tax, and argued that this tax can be suspended for a member state if it was shown to affect its economic growth adversely.

The Commission was also keen that the tax would not be applied against European firms, without similar taxes levied against other firms in other industrialized countries, in order to maintain the competitiveness of European firms. This was known as the conditionality principle. The Commission approved on May 13, 1992 its strategy to limit carbon dioxide emissions and to improve energy efficiency.

The Council of Ministers in turn adopted the new tax in its May 27, 1992 as part of the Community's Environment. Policy Revenues from the new tax will not, however, be channeled to the EC coffers, but will be kept by the treasury of each member state. According to the council's decision the carbon tax would apply to "all fossil fuel" including oil, and gas and coal, but will not affect other forms of energy production (including nuclear power).

The tax would be phased in gradually, starting at a minimum of three US dollars a barrel of oil equivalent from 1 January 1993 ... and rising by one US dollar a year to a minimum of ten US dollars a barrel of oil equivalent in the year 2000. Member states would of course be free to adopt higher rates.[18]

This strategy was presented to the UN Conference on Environment and Development (UNCED), summit meeting held in June 1992, in Rio de Janeiro. The Gulf states attempted to dissuade the Europeans from adopting this platform at the Earth summit in Rio. According to article 19 of the 1988 cooperation Agreement between the GCC and the EC, any member states of the GCC or the EC can ask for a meeting of the Joint Council to discuss any proposed changes in the trade regime that would be harmful to the interests of the other side.[19] Such a joint meeting of the EC-GCC Council of Ministers took place in Kuwait on May 16, 1992, prior to holding the Rio summit.

The GCC ministers at the meeting argued feverishly that this proposed tax was "unilateral, hasty, and costly". Hisham Nazer, the Saudi oil minister said the GCC states "have seen their main export commodity and engine of growth, excessively taxed in the industrialized countries and more so in the EC, the latest of which is the taxation under environment pretext".[20]

He argued that oil is already paying taxes in excess of its contribution to carbon dioxide emissions. He gave an example of a barrel of oil sold at the borders of the EC for at $20 that would generate $56 of taxes before it is sold to a potential customer. He further argued that existing taxes in EC countries amount to three times the prices of imported oil. Mr. Nazer gave statistics concerning GCC export for 1991, to the EC which he said amounted to $64 billion, and generated $210 billion in taxes imposed on consumption of 10.3 million barrels a day.[21]

Thus the GCC income out of their oil exports to the EC in that year was 28 percent of total taxes generated from that amount of oil. He gave an example of Italy which earned $50 billion in taxes on imported oil in 1991, while the UAE received $12 billion in earnings for the same amount of oil consumed in Italy in that year. He argued that further imposition of the carbon tax would be injurious to the economies of the GCC and would "introduce elements of uncertainty which would affect future GCC investments to expand production capacity, during the coming decade".[22] And if this tax is adopted the oil industry would find itself unable to meet demand for oil by the end of the century.

Public opinion in the Gulf states, as reflected in the daily press, was also vociferously against further taxation of oil exports. Many

articles argued that the EC was not taxing coal which is a major contributor of CO_2 emissions, and that the new carbon tax was an unduly attempt to increase European governmental revenues at the expense of the oil producers and the oil consuming publics. Other oil officials in the Gulf called for retaliatory actions on GCC imports from Europe.

Oil ministers in the Gulf argued that the welfare of their societies is deeply hurt by existing taxes in Europe which range (in December 1991) between $75 a barrel in Italy and $53.9 a barrel in Germany (see table 5 for comparative rates of taxes in the second quarter of 1993). They also argued that any imposition of new taxes would render their governments incapable of meeting their economic and social needs, and may even impair their ability to create effective regional deterrence system.

The EC ministers at the Joint Conference in Kuwait, argued that the policy is not necessary discriminating against GCC oil and gas exporters, but would equally apply to all internal and external producers. They also argued that this tax was politically acceptable and it is necessary to save the environment. Thus, the GCC ministers failed to dissuade the Europeans in Kuwait. And when the two sides presented their arguments at the Rio summit, the following month, the GCC states succeeded in winning only the side of the American delegation to the Conference, but everybody else supported the European proposal, and the final platform called on the world community to look into ways of limiting CO_2 emissions, including possible taxation of fossil fuels.

Following the Rio summit, the EC followed a cooling off period in which policies adopted by other industrialized countries would become more clear, particularly the policies of the incoming American administration which was following a deferent course regarding the energy tax, than the previous administration. Some member states of the EC were advocating immediate implementation of the carbon tax. Other governments such as Britain and Spain were advising caution particularly in light of the sluggish performance of most industrial economics in Europe. When the issue was put for discussion at the May 1993 meeting of the EC Council of Ministers, Spain and the UK opposed its immediate implementation since it would hurt investments in oil refining in the two countries, particularly in light of the proposed

two billion dollar project to redevelop the Brent oil field in the North Sea. France, Greece, Ireland and Portugal voiced some reservations, during the meeting, regarding "calculating the rate of tax and sharing its costs".[23] Thus, while the energy tax is not yet dead it has still a good chance of being implemented in the coming year, when economic conditions within the Community would be more favorable for adopting this tax.

Table 5
Percentage of Taxes in Gasoline Prices for the Second Quarter, 1993 in some EC Countries, the US, Canada and Japan

Country	Percentage of Taxes in Gasoline Prices
Belgium	71.3
Denmark	65.8
France	77.7
Germany	72.0
Greece	74.6
Ireland	66.6
Italy	73.5
Luxembourg	65.3
Netherlands	72.4
Portugal	73.9
Spain	68.0
UK	68.3
USA	29.6
Canada	47.6
Japan	46.7

Source: IEA, Energy Prices and Taxes Paris: OECD, 1993, Table 1.

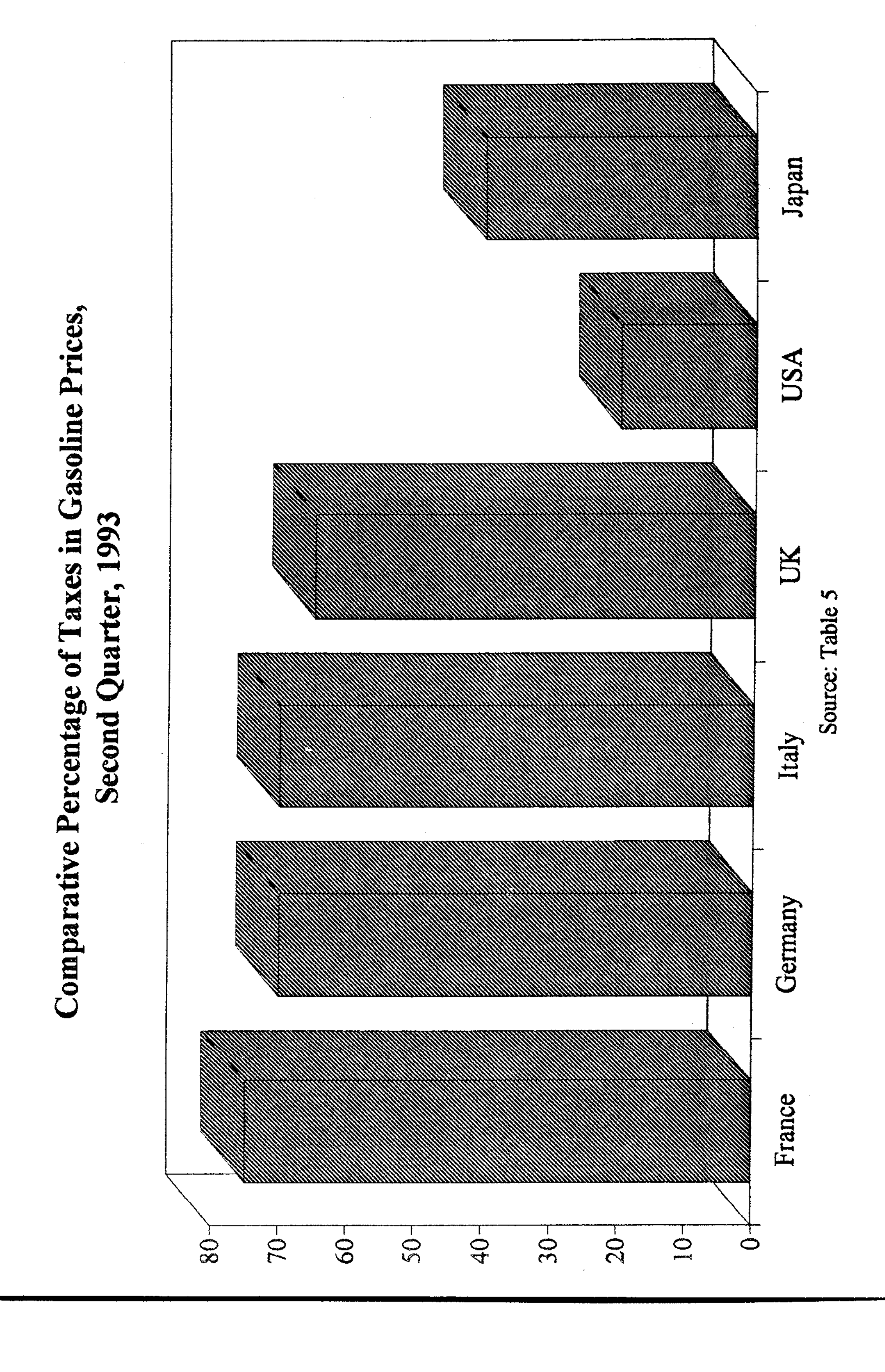
B. Difficult Choices Ahead

Today the Gulf states and the EC face a difficult impasse over the form of the newly proposed energy or carbon tax. The GCC has so far lived with a reasonable EC wide import tariffs on oil fuels of 7 percent and valorem and 16 percent on propane. They have lived also with tariffs on petrochemicals of around 12.5 percent.[24] But they feel that the current rates of taxes imposed by individual EC countries on oil imports are exorbitant rates ranging from 65 percent in

Luxembourg to 77.7 percent in France (second quarter 1993). When we compare these taxes with prevailing taxes (see table 5) in the US of 29.6 percent or Japan 46.7 percent one cannot escape the conclusion that the current tax rates applying in Europe are already too high, and it must be allowed to climb down. Studies commissioned by OPEC secretariat show that between 1985 and 1992 GDP in EC countries has increased on average by 20 percent for the whole seven year period, or by an average increased of 2.86 percent per annum. However, demand for oil was running 1.5 percent less than average demand for energy products, and grew only by about 12 percent during the same period, or by an average of 1.71 percent per year.[25]

If the new carbon tax proposals currently under discussion in Europe and in the United States are applied progressively, they would reduce demand for oil by the year 2000 by 1.9 million barrel/day.[26] Reduced demand for oil translates into less revenues and less government receipts for the Gulf producing states. Those states have already lived through a period of declining revenues. Saudi government receipts, for example, have declined from a level of SR 313400 million ($89,54 billion) in 1982 to SR 118000 ($31,45 billion) in 1992. The government had to finance a progressive budget deficit since 1983. The deficit for the 1992 budget is about SR 31 billion, or $8.3 billion. Saudi Arabia just like other GCC states of Kuwait and to a certain extent the UAE is dipping into their cash reserves to finance this gap. According to GCC secretariat, all GCC states face budget gaps for 1992, except Oman. Like Saudi Arabia and Kuwait, they will rely on internal and external debt. Saudi national debt is expected to reach SR 273 billion ($72.8 billion) or 61 percent of GDP, by the end of 1993.[27]

The fiscal crunch in GCC states is real and increases in carbon tax or energy taxes in the EC markets and the US as expected, will hit the economies of GCC hard, since oil is the major engine of economic growth, and government expenditure is the pivot of economic development.


Comparative Percentage of Taxes in Gasoline Prices,
Second Quarter, 1993
80
70
60
50
40
30
20
10
0
France
Germany
Italy
UK
USA
Japan
Source: Table 5

The choices open for those states are limited and narrow. They are also hard to adopt. Those choices can be as follows:
Maintain their current expenditure, level, which is necessary for the continued economic development of those countries. But to maintain those levels of expenditures, the GCC states would have to borrow from internal and external sources. This will pile up the debt, and debt servicing which in some of those states, like Saudi Arabia is already representing 9.4 percent of government budget. Paying those debts will also come from oil revenues, which will be declining over time, given the context of low demand and low prices for oil.

1) Maintaining current levels of government expenditures might be politically safe for those GCC governments, but the resulting debt and debt servicing will decrease the value of their currency vis-à-vis other currencies, with concurrent balance of trade deficits and high rates of inflation.

2) Decrease the government expenditures in light of decreased income from oil. This will depress local economies which depend on oil receipts, and may create unemployment which entails social and political instability in those states. In the foreign policy area, the Arab Gulf states have committed themselves to a large and long term military procurement programs to defend their countries against possible regional bullies. The GCC governments commitment to modernize their armies will suffer as a result of declining oil receipts, and those countries may not be able to withstand any future threats. So, while decreasing government expenditure might be sound on economic grounds, it is impossible to pursue for internal and external political considerations.

3) The GCC, if forced by increased oil taxes in traditional markets might look for other markets, and use oil barter agreements with other states, as they have done with the UK government in the past regarding the Tornado deals. However, in extreme circumstances those governments may be enticed to sell their oil reserves in the ground as collateral for loans and credits. We have seen Algeria forced in the past two years to follow this disastrous policy, which robs future generations of the earnings of the minerals of their land.

After the crunch of 1986, similar schemes were floated by the US government, and some GCC states were asked to lease their oil in the ground for long periods of time and the payment would be on present

value paid on installments over a period of twenty to twenty five years. Those suggestions were brushed aside at the time by some of the Gulf producing states.

All these choices are difficult choices for the Gulf states. And it is in the interests of both producers and consumers to enhance economic development through less taxes on imported oil. Stable oil market and a stable price around $18 to $20 is capable of maintaining adequate oil supplies for the future and sufficient income for the oil producing GCC states to maintain their economic development and the concomitant social welfare for their people. In addition, the Gulf states cannot meet oil demands by the end of the century, which are approximately by $40 to 50 billion when they will only earn 28 percent of the earlys of those investments.

Conclusion

This paper has argued against worsening the already shaky petroleum market through the proposed EC wide carbon tax which would adversely affect the producers of oil in the GCC states, and likewise rob the consuming publics in Europe of a vital source of energy for homes and factories. It also looked into three different difficult choices for the GCC states to follow if their revenues worsened as a result of the imposition of the proposed carbon tax, and found those options unattainable due to unacceptable economic and political costs.

Notes

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TEN

EGYPTIAN GERMAN RELATIONS: AID

10 Egyptian-German Relations: Aid

Dr. Khalda Shadi

There is no doubt that the successful economic cooperation between Germany and Egypt has been a major component of the intensive German-Egyptian relations for decades. The numerous aspects of this cooperation can be grouped in the following main fields: trade, transfer of technology, investments and in particular development assistance. The focus of this study will be the dimensions of cooperation between Germany and Egypt in the latter field: development assistance. The pattern of cooperation in this field is unique and significant for a very specific reason: the German government maintains development programs with more than 140 countries. Within this framework, Egypt has always emerged as a major target country for German development assistance. And up to date, as ambassador Dr. Heinz Fiedler said, "Germany is fully aware of the pressing economic and social problems of Egypt and the important role of the Egyptian government as a peace seeking force and stabilizing factor in the Middle East, therefore Egypt will continue to keep its place as a major partner for German development cooperation".[1]

In order to draw an accurate overall picture of the current German-Egyptian development cooperation, this paper will first outline the major features and characteristics of the German development policy and then will analyze the extent to which these characterizations are revealed and reflected in the case of German-Egyptian cooperation. In concluding the paper sheds light on achievements and prospects of the development cooperation between the two countries.

I. Main Characteristics and Basic Principles of the German Development Policy

The German development policy is part of the global peace policy of the Federal Republic of Germany. Its main objective is to provide a better and more stable political international environment through the channels of economic and social development in the Third World countries.[2] The question is: when and how will the German development policy be able to constitute a positive contribution to development in these countries. Some criteria are summarized below as a guideline in answering the question:

- Preconditions and priorities of German development cooperation
- Main components and forms of the cooperation

Preconditions and Supreme Priorities

The main function of German development assistance is to provide aid to developing countries in such a way that enables them to help themselves. German assistance by itself is seen as a minor contributor to the efforts of the partners, in implementing projects and programs. It can only complement, never replace, the internal efforts. This is why, the developing countries' own efforts have to be visible, they must exert real effort to mobilize their own resources, to set stages for domestic economic and social reforms and structural adjustments, and also create the necessary conditions for promoting prosperity and welfare of their people. In other terms, the granting of German development aid entails suitable internal conditions and as quoted from a speech by the German Minister of Economic Cooperation, Carl Dieter Spranger: "German aid must not and cannot be a gap filler".[3]

Accordingly, German aid tends to face the most popular challenges and the most prevalent problems in the Third World, which can be summed up in: poverty, destruction of environment and population growth. Therefore, preference or high priority of the German development policy goes to combating poverty, protection of environment and meeting the challenges posed by population growth.[4]

1) Combating poverty is reflected in the assurance of reliable food supplies to the population and the promotion of rural districts, as well as solving the basic development problems of the metropolis of the

Third World like: housing, clothing requirements, access to vital public services such as clean drinking water, sanitary facilities and public transport.[5] Moreover, the process of fighting poverty calls for special efforts to help the people to develop their creative abilities and promote their private initiatives. More important still is that it calls for combating the intensive spreading of drugs and for increased investments in the education sector.[6]

2) Another top priority of German development policy is the commitment to worldwide environment protection and the prevention of pollution. From the German point of view, development assistance must make multipronged efforts to halt the pressures on natural resources in developing countries brought forth by the deadly spiral of poverty, deteriorating living standards and fast population growth. Financial and technological devices will play - in this regard - a particularly important role on the part of Germany.

3) The third fundamental priority is to support the efforts to confront population growth, which is a decisive factor in the destruction of environment and the prevention of mastering the urgent difficult social and economic problems. Therefore, German development aid seeks to take part in planning, financing and implementing effective population policies and programs.[7]

Main Components and Forms of German Development Cooperation

The German development cooperation is the responsibility of both the German government and different bodies of the society. The government collaborates with these bodies and engages in intensive dialogues on basic questions and common development policy aims and means to make better use of development experience.[8] Consequently, the German activities are distributed across a number of official and private institutions.

Official Development Activities

As for the official development activities, it is the Federal Ministry for Economic Cooperation (Bundesministerium für wirtschaftliche Zusammenarbeit - BMZ) which is absolutely responsible for such activities. it sets the stages of planning, coordinating and supervising development programs. It also takes the

final decision regarding the use of the development fund, which is subject to annual approval by the German Bundestag.[9]

The amount of aid directed to developing countries is quite significant. In the year 1990 German development aid has been raised by 10.7 percent - compared to the year 1989, i.e., to 9,210 mill DM.* Undoubtedly these numbers reflect one of the biggest increases in the history of German development aid.[10]

About 30 percent of the aid is channeled through multilateral institutions such as: specialized agencies of the United Nations, the World Bank and its subsidiaries and the European Community, while the remaining 70 percent is designated for bilateral cooperation, which covers all disbursements made to a specific country or to a group of countries.[11] In such bilateral cooperation a distinction has to be made between its two main cornerstones, namely financial cooperation and technical cooperation.

1) The financial cooperation shows a great deal of interest in financing projects worthy of being supported from the viewpoint of the development policy. The financial aid derives its importance from the fact that, it is mostly granted in the form of long term loans at low interest rates and in special cases as non-repayable grants. In addition to loans, it is also provided - although at a lesser extent - in the form of commodity aid. As shown by the trend of financial aid flows, they mainly concentrate on larger infrastructural and industrially more advanced projects in developing countries.* "KFW is the Credit Institute for reconstruction which is in charge - on a special agreement with the BMZ - of financing measures.[13]

2) Technical cooperation aims primarily at providing developing countries with the technological, economical and organizational know how, capabilities and experiences. It should be pointed out that technical aid is granted in kind donations (free of charge).[14] An overall look at this cooperation confirms that primary fields of interest are: education, agriculture and rural development. On average technical aid inflows in these fields constitute about 75 percent of total technical

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* German offical development aid totals 6,219 mill DM in 1979, 8,317 mill DM in 1986.

* Kreditanstaft für Wieder aufbau.

aid.* GTZ, the German Agency of Technical Cooperation in its role as executor of the program of technical aid acts parallel to the MBZ.

3) Last but not least, it has to be taken into consideration that debt remission is also included in the figures of official development cooperation.

Private Development Activities

Aside from official development activities many projects are supported in developing countries by several German private organizations. Among these are churches foundations, trade unions and other such important voluntary services. Churches are mostly involved in education programs and health affairs. Foundations are increasingly involved in social political education, as well as in vocational and academic training. Within this framework some of them are closely affiliated with political parties. On the other hand, many other foundations are expressing more interest in other social and economic activities such as the German Red Cross, the German Agro Action. Voluntary services include German centers which concentrate on assisting developing countries in the recruitment of manpower by placing appropriate German specialists and experts in their firms or institutions. There is also the cooperation between German and internal enterprises in developing countries, which is of great importance to economic development.[16]

II. German Development Cooperation with Egypt

Taking all the above mentioned features and characteristics of the German development policy into account, the question is how this policy has been actually applied in the typical case of the Egyptian-German development cooperation. Two lines of inquiry are pursued here in order to answer this question.

- The first line of inquiry is concerned with the quantitative evaluation of the Egyptian-German cooperation (Volume of Cooperation).
- The second line of inquiry gives an overview assessment of the qualitative aspect of this cooperation (Areas of Concentration).

* Deutsche Gesellschaft für Technische Zusammen arbeit.

A. *Volume of Cooperation*

It is a fact that Egypt has been always a relatively macro beneficiary of German development aid. Over the period 1961-1989, it was the third recipient after India and Turkey. During 1986-1990, it ranked third to India and China. In 1990, it was the first recipient, even before India and China because of the impact of the Gulf war aid. Previewing 1992, assessments indicate that Egypt would probably occupy once more a second ranking position (see Tables 1 and 2).[17]

However, it has to be pointed out here that Egyptian-German cooperation was rather modest in the late fifties. Eventually, especially starting from the mid seventies and after the re-naturalization of relations between the two countries the volume of cooperation intensified and gained momentum. In this context several facts are worthy to note.

First, within the framework of bilateral cooperation - over the past three decades - the German government has contributed the large sum of 6,5 billion DM to Egypt. More than 90 percent of this fund was committed in the years 1974 and after. About 90 percent of the fund were consumed by the two major cornerstones of bilateral cooperation.[18] (See Tables 3 and 4).

German aid in form of loans is provided under very favorable conditions: 40-50 years repayment, 10 years grace, 0.75 percent interests. Reviewing the figures reveals that the annual German development budget for Egypt has increased from only 30 mill DM in the late fifties to about 300 mill DM in the second half of the eighties. Moreover, when Egypt suffered in 1991 from the severe economic and social effects of the Gulf war, the German government raised the budget to 400 mill DM.[19] (See Table 5).

Second, parallel to the above mentioned facts, Germany is also considered a major contributor to the funds provided to Egypt by multilateral institutions such as the World Bank, African Development Bank, UNDP and the European Community. The amount of its contribution here mounts to more than 1 billion DM. In this context, it is essential to stress the importance of the multilateral German development cooperation with Egypt for the following reasons:

- Germany is one of the major World Bank's capital owners. Hence, it is a main decision maker in the world banking business.

- Furthermore, it is also an important member of the IMF, and of the Paris Club, which is responsible for consultation on issues related to debt relief and debt remission.
- Indeed, it is the most important member of the European Community from the viewpoint of Egypt.

Third, if we consider the total foreign development aid extended to Egypt we should conclude that Germany is a main country of origin.[20] (See Table 6). Table 6 shows that official support to Egypt comes mainly from USA and Germany. Germany ranks first among all members of the European Community, and second to USA among all other donators (excluding Arab countries).

Comparing German development aid flows to Egypt with other countries of origin, leads to a very significant result namely, that this aid is characterized by continuous growth (average in the period 1983-1990, US $150 mill yearly).[21]

Reviewing the Gulf crisis assistance provided to Egypt, a two dimensional role of Germany can be easily detected. For her part, Germany was actively involved in the worldwide financial support to Egypt. (see Table 7). Simultaneously, an important step was taken towards solving the enormous problems of Egypt's outstanding debts. Germany has canceled a substantial part of these debts and agreed to reschedule the remaining part.[22]

B. Areas of Concentration

This section outlines the primary areas of concentration of German development assistance. In studying this issue, we have to shed light on certain points:

The first deals with the protocol of 1989 between the governments of Egypt and Germany, which points to the areas of key importance for bilateral development cooperation. Both sides converge on areas that seem to be of highest priority for the national economy and social life such as:

- Improving and expanding the physical infrastructure including energy, railways, water supply, sewerage and telecommunication.
- Enhancing productivity and the transfer of technology, management and skills in industry and agriculture.
- Building human resources by providing education and vocational training.

- Promoting self-help initiatives by assisting local community organizations.
- Protecting environment and natural resources.[23]

The second point deals with the actual implementation of the protocol's contents referred to above. In this respect the main emphasis of the extensive financial cooperation lies in the specific area of infrastructure and industry, whereas the technical cooperation focuses on agriculture and vocational training. (See Table 8) A brief glance on the ongoing projects and programs in Egypt within the framework of German financial and technical cooperation reveals the following:

A broad set of German initiatives can be seen in projects operating within the sectors of financial cooperation such as:

- Projects related to water.
- Sewerage national projects in big rural districts.
- Projects considering energy production - distribution as well as rehabilitation of power stations.
- Extension of telecom system.
- Rehabilitation of railways.
- Renovation of industry assets.[24]

Within the context of technical cooperation, some fifty experts and advisors are involved - at present - in about 20 projects that are either operating, or rather on the verge of being implemented. The GTZ, which has been active in Egypt since its establishment in 1974, tries and tests methods and approaches in the area of agriculture in order to increase agrarian productivity. It also offers modern techniques and up to date knowledge in this field. In the sector of vocational training, projects are designed to train manpower and to provide them with the needed skills for basic physical infrastructure growth.

The latest key issue emerging in recent Egyptian-German agreements is concentration on projects that stress private sector involvement, as well as programs that foster individual initiative and group mobilization. Moreover, projects are now underway that relate directly to regional structures rather than to centralized authorities.[25]

Examples of the ongoing technical projects are in the agricultural sector:

- Micro nutrient and plant nutrition problems.

- Field rat control in agriculture and rural areas.
- Improvement of production and supply of seeds.
- Promotion of appropriate technologies for small farms.
- Protection and development of agriculture resources in El Qasr area.

In the area of technical training and education:

- Training on operation and maintenance of farm machinery, Maamura.
- Promotion of apprentice systems at the Egyptian National Railways.
- Training on operation and maintenance of construction heavy machinery, 6th October City.* [26]

Thirdly, one aspect which has to be given special attention is the new horizons that technical cooperation between Germany and Egypt in the fields of technical education and vocational training has reached. The most recent step in the process of the ever successful cooperation between the two countries emerged in the so-called "Mubarak-Kohl Project", which is concerned with German assistance to the reform and reorientation of the present technical education and vocational training system.

The idea was born in October 1991 during Mubarak's visit to Germany. Shortly afterwards, in February 1992, both the Egyptian Minister of Education Hussein Kamel Bahaa El Din and the German Minister of Economic Cooperation Carl Dieter Spranger signed a "Declaration of Intent" in this respect. A strategy combining pragmatism with a clear vision of the intention and targets of the overall process was needed; therefore a short term German expert was assigned to coordinate with an Egyptian working group in analyzing and reviewing the existing laws, regulation, potentials, the administrative structures, etc.

Together they envisage a strategy for improving the Egyptian system of apprenticeship training in a way that drives it towards the similar cooperative dual system in Germany. In order to further clarify this matter it should be mentioned that in the broader sense of term "dual system" training calls for the successful existence and co-existence of three main factors:

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* See the map of Egypt that pinpoints technical project activities all over the country.

- Two joined forces: the government and the industry.
- Two places: private company and technical school.
- Two components: practical part and theoretical part.

However, it has to be noted that the German dual system differs from similar schemes all over the world due to further elements which the Germans enjoy:

- The given system of public administration, which sets up the vocational training administration.
- The magnitude of young people, who are training in the system (60 percent to 70 percent of all young people).[27]

Finally, reference should also be made to the activities undertaken by some German private institutions working in Egypt. Numerous projects can be referred to here. For example, two major churches and some main political foundations (Konrad Adenauer Friedrich Ebert, Hans Seidel, Friedrich Naumann) have close contacts with the Egyptian government, parties, universities, youth organizations, etc. Through these contacts they are involved in a considerable number of various development projects both independently and in coordination with the German government. Other institutions are pursuing their activities mainly in the cultural and educational domains. Among these are the German Archeological Institute and the German Research Society. Both institutes provide support to the Egyptian authorities responsible for the administration of ancient monuments and artifacts. Furthermore, both the German Academic Exchange Service (DAAD) and the Alexander von Humboldt foundation are playing a significant role in the education sector. Principally, they award scholarships to Egyptian students, as well as to university teaching and research staff.[28]

Conclusion

Having analyzed the different aspects of German development cooperation with Egypt, one may draw the following conclusions:

1) No objective researcher can deny that German cooperation remarkably benefits and complements the social and economic development efforts in Egypt. German assistance contributed in a perceptible way to expand the physical infrastructure of the country. It also helped significantly in improving the skills of many Egyptians by

providing them with appropriate training either in Egypt or abroad. Moreover it helped to increase productivity in agricultural and industrial sectors and improve urban infrastructure by installing new water and sewerage systems. The German government continues to show particular interest in assisting the Egyptian government in implementing its reform and structural adjustment program.

2) Admitting the substantiality and effectivity of the German aid should not blind us to the fact that nothing can guarantee its lasting stability. Few reasons can be mentioned:

First, there are the political factors which have played - at different times - an important role in determining the level and composition of German aid. Typical cases, when politics has shaped the level of German aid are the events of the mid seventies, then the Gulf crisis.

Secondly, the effect of the aid may in some years be negative. Different reasons can be given for this. Prominent among these is the fact that the interest of the debt Egypt has to pay can surpass the amount of the aid. In other words the outflow is more than the inflow.[29]

Thirdly, the German side decided that the new reform program of the Egyptian government will act in the future as the essential point of reference for determining German aid. Therefore, the German program is expected to be reconsidered, even if only partially and to be tailored to the specific needs of the reform process. On the other hand, Germany along with important donors are trying to achieve program coordination in order to ensure that the development aid continues to perform its proper function. This fact might have its negative impact on the annual aid to Egypt.

Finally, Germany faces serious economic constraints because of the costs of the unification and the need to assist Eastern Europe. This pressing internal situation is also expected to negatively affect the German policy towards the developing countries in general and Egypt in particular.

3) In my opinion, if Egypt wants to continue and to strengthen the development cooperation with Germany, it has to exert sincere efforts in implementing its development program to prove itself worthy of aid. In other words internal Egyptian input will be decisive in the further success of its relation with Germany.

It is up to us to make maximum use of the opportunities of increasing the foreign financial influx to Egypt. This can be done by improving our self initiatives and productivity potentials. It is also vital for the Egyptian government to understand the intention of the above mentioned trend of the bilateral and multilateral donors. This requires effective control over all ongoing projects. It also necessitates a rapid boost of the process of implementing a far reaching economic and social reform program in order to eliminate the existing economic disequilibrium. However, difficult this may be socially, politically and economically there is no other option.

Notes

1. Opening address by the German Ambassador Dr. Heinz Fielder, on occasion of the Seminar "Promotion of Technical Education and Vocational Training, Cairo June 20-22, 1992. See also, Dr. Rolf, E. Beuer, Mitglied des Vorstandes der Deutschen Bank. "Die arabische Welt und das vereinte Deutschland", in Partnerschaft mit der Arabischen Welt", 33 Yahrgang, Mai 1991, p. 20.
2. Bertlesmann Lexikon, Facts about Germany (Gütersloh: Verglas gruppe Bertlesmann GmbH. 1989), p. 217.
3. Carl Dieter Spranger, German Minister for EC, "Trade is the most effective form of development aid", in "Germany partner of the world: documentation of economy and export (Koln: Verlag für wirtschaftliche Information, 1991), p. 15.
4. Ibid., p. 15. See also, the interview with the German Minister for EC in Al Ahram 8/5/1991, p. 15. See also another interview with the Minister in Al Ahram, 22/3/1992.
5. Bertlesmann Lexikon, op.cit., p. 217.
6. Carl Dieter Spranger, op.cit., p. 15.
7. Ibid., p. 15.
8. Ibid., p. 16.
9. Hans Peter Schwarz, Die Westdeutsche Entwicklungshilfe, in Hans Peter Schwarz (hrsg.) Handbuch der deutschen Aussenpolitik (München: R. Piper & Co. Verlag, 1975), p. 725.
10. "Germany update", in Inter Nationes Press, Bonn: Special Report 11, 1990, p. 18.

11. German Agency for Technical Cooperation GTZ (Report: 1991), p. 2.
12. Bertelsmann Lexikon, op.cit., p. 220.
13. GTZ Report, op.cit., p. 3.
14. Bertelsmann Lexikon, op.cit., p. 218. GTZ Report, op.cit., p. 3.
15. Hans Peter Schwarz, op.cit., p. 735.
16. Carl Dieter Spranger, op.cit., p. 16. Bertelsmann Lexikon, op.cit., p. 218.
17. GTZ Reports: 1991, 1992. See also, Inter Nationes Press, Bonn Report bilateral, (Deutsche Entwicklungshilfe an Agypten) R.B. 2172, 191.
18. Dr. Heba Nassar, The Economic Relationship between Germany and Egypt, Center for Economic and Financial Research and Studies, Cairo University, May 1992, pp. 22, 23. (19, 20, 21) GTZ Reports 1991, 1992.
19. Heinrich Weiss, "Wirtschaftliche Zusammenarbeit mit der Arabischen Welt", in Partnerschaft mit der Arabischen Welt, op.cit., pp. 11-12. See also Al Ahram, 7/10/1991, p. 3.
20. GTZ Reports, 1991, 1992.
21. GTZ Reports, 1991, 1992.
22. GTZ Reports, 1991, 1992.
23. GTZ Reports, 1991, 1992.
24. GTZ Report, 1991, 1992. Al Ahram, 8/5/1991. Al Ahram, 23/3/1992. Al Ahram, 13/11/1991. Al Ahram, 16/10/1991. Al Ahram 22/3/1991. Al Ahram, 18/1/1991.
25. GTZ Projects and Programs in Egypt, publication of GTZ, Project Administration Service, Cairo, Summer 1992.
26. GTZ Report, 1991.
27. See more details about Mubarak-Kohl Project in: Documentation of the Seminar "Promotion of Technical Education and Vocational Training Systems in Egypt", organized by GTZ, Cairo, June 20-22, 1992. See also Al-Ahram, 22/3/1992 and Al Ahram, 17/1/1991.
28. See Hans Peter Schwarz, op.cit., p. 726. See also Reports of the German Embassy in Cairo.
29. See Heba Nassar, op.cit., p. 22.

Table 1
Rank of Egypt among the majors partners of German Development Aid (1961-1989 cumulated

	Million DM	In proportion to total German Aid
India	11,590	9%
Turkey	6,486	5%
Egypt	5,564	4%

Table 2
Assessments of the Year 1992 in Million DM

	FC	TC	Total
India	300	35	335
Egypt	200	25	225
China	180	45	225
Turkey	120	-	120

Source: Adopted from GTZ Report, 26.2.1992.

Table 3
Total German Fund provided to Egypt (1961-1990 cumulated)

	Mill DM	Proportion	Grants	Loans
			Proportion	
F. Aid (KfW)	4,872	81%	7%	93%
T. Aid (GTZ)	504	8%	100%	
Other dev.cooperation	663	11%	100%	
Total	6,039	100%		

Table 4
Total Official Development Assistance till 1990 (in Million DM)

	1991	1992 (should)
Fin. Coop. KfW	5.222	200
Tech. Coop. GTZ	528	25
Other Tech. Coop.	245	
Other O Dev. Aid (evaluated 1991)	505	
	6.500	

Source: GTZ Reports, 26.2.1992 and 5.6.1991

Table 5
German Annual Development Budget for Egypt (Million DM) in Recent Years

	1989	1990	1991	1992 (should)
Fin. Coop.	235*	435**	350***	200
Tech. Coop.	34	31	25	25

* 1986-1989 (yearly 235 mill DM)
** Including 200 mill DM Commodity Aid as a grant (Gulf crisis aid)
*** Including 150 mill DM Commodity Aid as grant (Gulf crisis aid)
Source: GTZ Report 1991.

Table 6
Official Development Aid Extended to Egypt in US $ (1983-1990 cumulated)

Countries	In Mill US $	In Proportion
USA	8.719	52%
EC countries including	2.875	17%
Germany	1.239	7%
Other bilateral aids including	3.641	22%
Arab Countries	2.200	13%
Japan	811	5%
Total bilateral aid	15.235	91%
Multilateral aid including	1.567	9%
World Bank	664	4%
Total: bil. and mult, aid	16.802	100%

Source: Results of the research of the Canadian CIDA, July 1991. Adopted from GTZ report.

Note: Accurate assessments are not available for 1991 because of the absence of data on the contribution of Arab countries, Arab institutes, Japan and the World Bank.

Table 7
Gulf Crisis Assistance Extended to Egypt

	Mill US $	Proportion
Total	4.793	100%
Arab countries	3.009	69%
Japan	592	12%
EC members	419	9%
including Germany	240	5%
Other	233	5%

Table 8
Sectoral Distribution of German Bilateral Commitments (1957-1990

1. Financial Cooperation	Mill DM	Percentage
Physical infrastructure	2.207	45
- Energy	853	
- Railways	731	
- Water	288	
- Telecommunication	220	
- Navigation	116	
Industry	1.483	30
Construction	211	4
Agriculture	192	4
Commodity aid	792	16
- Others	30	1
	4.915	100
2. Technical Cooperation		
Agriculture	172	35
Vocational training	166	34
Health	45	9
Promotion of self-help	16	3
initiatives	23	5
Study and expert fund	69	14
Others		
	491	100

Source: German Arab Trade, Special Edition, German Arab Chamber of Commerce, German Egyptian Business Review Vol. 38, No. 78, 1991.

Alexandria
- Training on Operation and Maintenance of Farm Machinery (Maamoura)
- Training of Technical Staff of Alexandria Water Supply
- Promotion of Fodder Production (headquarters)
- Micronutrients and Plant Nutrition (station)

Marsa Matrouh
- Protection and Development of Agricultural Resources in the Area of El Qasr

Kafr El Zaiat
- Promotion of Fodder Production (factory)

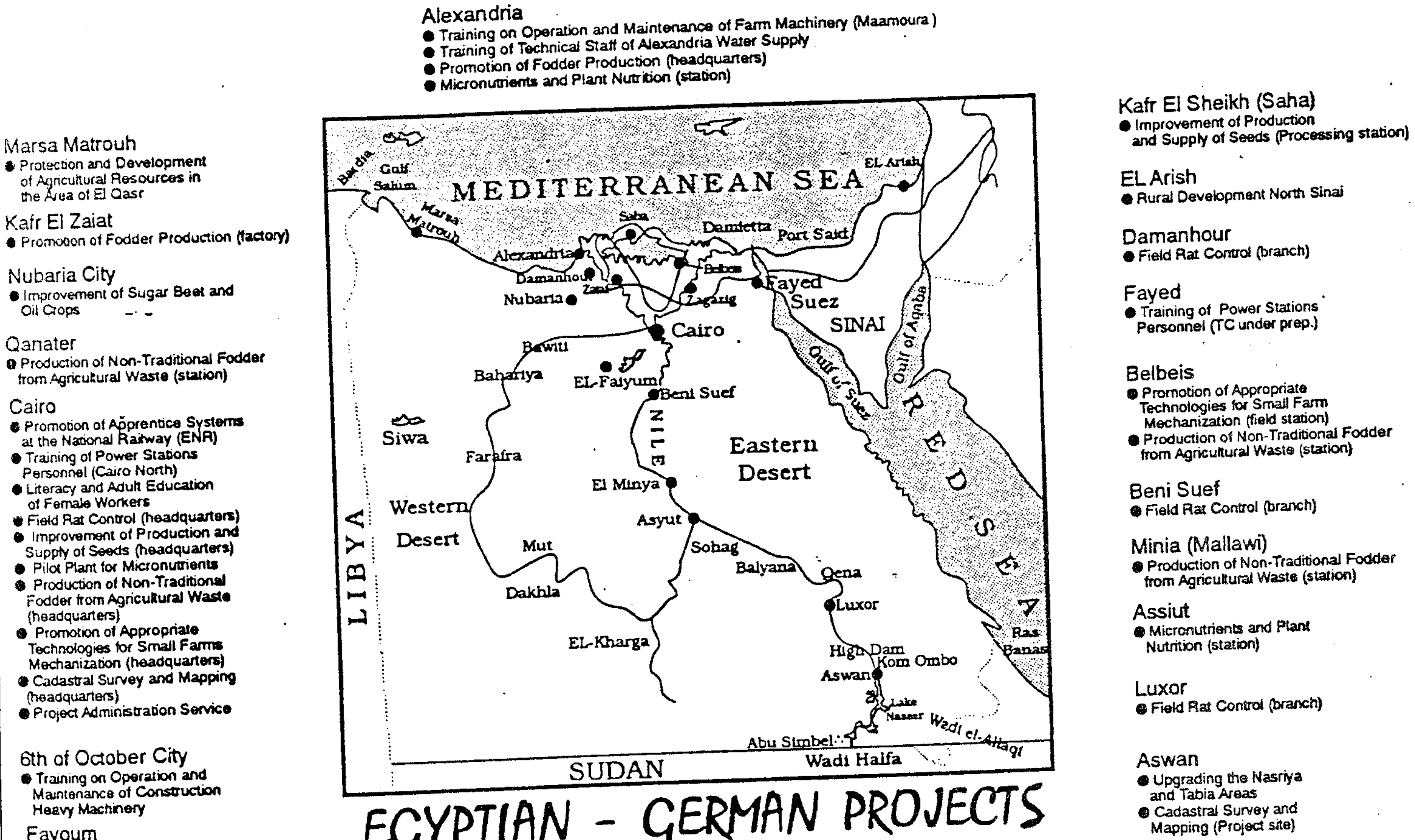
Nubaria City
- Improvement of Sugar Beet and Oil Crops

Qanater
- Production of Non-Traditional Fodder from Agricultural Waste (station)

Cairo
- Promotion of Apprentice Systems at the National Railway (ENR)
- Training of Power Stations Personnel (Cairo North)
- Literacy and Adult Education of Female Workers
- Field Rat Control (headquarters)
- Improvement of Production and Supply of Seeds (headquarters)
- Pilot Plant for Micronutrients
- Production of Non-Traditional Fodder from Agricultural Waste (headquarters)
- Promotion of Appropriate Technologies for Small Farms Mechanization (headquarters)
- Cadastral Survey and Mapping (headquarters)
- Project Administration Service

6th of October City
- Training on Operation and Maintenance of Construction Heavy Machinery

Fayoum
- Promotion of Agricultural Cooperative Services



EGYPTIAN - GERMAN PROJECTS OF TECHNICAL COOPERATION as of Summer 1992

Kafr El Sheikh (Saha)
- Improvement of Production and Supply of Seeds (Processing station)

EL Arish
- Rural Development North Sinai

Damanhour
- Field Rat Control (branch)

Fayed
- Training of Power Stations Personnel (TC under prep.)

Belbeis
- Promotion of Appropriate Technologies for Small Farm Mechanization (field station)
- Production of Non-Traditional Fodder from Agricultural Waste (station)

Beni Suef
- Field Rat Control (branch)

Minia (Mallawi)
- Production of Non-Traditional Fodder from Agricultural Waste (station)

Assiut
- Micronutrients and Plant Nutrition (station)

Luxor
- Field Rat Control (branch)

Aswan
- Upgrading the Nasriya and Tabia Areas
- Cadastral Survey and Mapping (Project site)

ELEVEN

EGYPTIAN-GERMAN RELATIONS: TRADE AND INVESTMENT

11 Egyptian-German Relations: Trade and Investment

Mr. Azer Farag Azer

After October 1973, Sadat began his Open Door Policy towards the whole world in general and the West in particular. In order to prepare the ground for the new policy a series of liberal legislations were issued in the fields of trade and investment. The private sector was allowed commercial agency activity in the import and export sector. In the field of investment Law No. 43 of 1974 organized Arab and foreign investment and provided foreign investors with a number of privileges such as tax exemptions, tax holidays and freedom to transfer profits and capital abroad. A new foreign exchange law was also issued whereby private citizens were allowed to deal in foreign currencies.

It is within this context that Egyptian-German relations in the areas of trade and investment flourished. In this presentation I will try to follow the development of such relations during the period 1980-1992. My presentation will first address Egyptian German commercial relations and then it will focus on German investment in Egypt.

I. Egyptian German Commercial Relations

1. Commercial Exchange

Table 1 shows the movement of trade between the two countries from the year 1980 till the year 1992 in DM.

Value in Million DM

Year	German	German Imp	
1980	1858	387	
1981	2540	634	
1982	2774	1052	
1983	2952	767	
German			
1984	3214	1365	
Egyptian			
1985	3149	1576	Trade
1986	2513	429	1980-
1992			
1987	1925	550	
1988	1968	325	
1989	1958	526	
1990	1872	418	
1991	1815	447	
1992	1919	416	

If we analyze the above figures, we can see the following:

1) The balance of trade between the two countries shows continuous surplus in favor of Germany.

2) The biggest volume of trade between the two countries was realized in 1985 when the total increased up to DM 4725 millions compared with the second biggest volume realized in the precedent year 1984 with DM 4579 millions. Since 1985 till 1992, the trend went down. In 1992 the global German-Egyptian trade figures turned the long lasting downward trend to a modest increase due to an increase in German exports to Egypt, whereas Egyptian exports to Germany decreased in 1992 compared with 1991. It was DM 447 millions in 1991 and went down to DM 416 millions.

3) The downward trend could be due to several factors, some are Egyptian such as the restrictive import policy applied in Egypt since January 1985 by Dr. Mustafa El Said, for example banning importation of

many commodities especially passenger cars, devaluation of the Egyptian pound increase customs fees and introduction of a 10 percent sales taxes on imports. Furthermore, since the beginning of the economic reform policy and during the stabilization stage, it became difficult for the importers to get more credits from Egyptian banks to finance their imports. The banks were forced by the Central Bank of Egypt to put credit ceilings as a step to bring down inflation. The decline of Egyptian exports is due mainly to the downward trend in petroleum prices which still represents a considerable volume in Egyptian exports to Germany. It is also due to the decline of Egypt's exports of cotton in general due to the low level of local production of cotton and an increase in local consumption. Another important factor is the lack of enough industrial Egyptian suitable goods liable to export.

The German reasons which affect Germany's exports to Egypt are mainly the continuous increase in the value of DM, lack of herms insurance to encourage German exporters to grant credit facilities to the Egyptian importers and the dual use lists, i.e., imposing export restrictions on German goods which may have dual use, military and civil, especially since the Gulf war.

German Exports to Egypt

A) Germany occupied the second place after USA as the second biggest exporting country to Egypt in 1992, German exports to Egypt in this year were LE 2871 million whereas USA export were LE 4852 million, then Italy occupied third place with total exports of LE 1814 million and France in the fourth place with LE 1384.

Three issues will be addressed in discussing German exports to Egypt, their rank as compared with other exporters, the volume of German exports to Egypt and the structure of such exports.

Table 2 shows the ten biggest exporting countries to Egypt in 1992.

Country	Value (1000 LE)
USA	4851,873
FRG	2870,911
Italy	1813,537
France	1383,419
UK	1205,458
Japan	1192,445
Netherlands	988,926
Switzerland	971,275
Australia	900,343
Sweden	683,381

B) It is well known that the volume of loans, grants and credit facilities in general, plays an important role in the volume of trade exchange between any two countries. If we take into consideration that the volume of loans and grants available from the German government to the Egyptian government is about LE 500 million every year. If we also consider that herms insurance for export credit risks has not been available for Egypt for several years, thus German exporters are not able to offer any suppliers facilities as credit facilities to Egyptian importers. If we compare the German credit facilities with the annual volume of USA aid to Egypt which is still around two billion dollars per year, these facts will reveal immediately the comparatively sound stand of the German products in the Egyptian market. The above mentioned factors also explain why did the USA occupy the first place among the exporting countries to Egypt.

2. *The Development of German Exports to Egypt*

Table 3 shows the development of German exports to Egypt from 1980 up to 1992.

Value in Million DM

Year	German Exports
1980	1858
1981	2540
1982	2774
1983	2952
1984	3214
1985	3149
1986	2513
1987	1925
1988	1968
1989	1958
1990	1872
1991	1815
1992	1919

We have discussed before the reasons behind the downward trend in the volume of trade between the two countries. We can add here two more negative factors:

- The halt in the expansion of Egyptian military industries in general which were among the main importers of German precision machines and tools as well as German raw materials as a result of peace climate.
- The diminish of investment in state owned companies in new projects as a result of the state policy to discourage new investments by the public sector and encourage new investments by the private sector in order to change the structure of investment in the country gradually in the favor of the private sector as step towards privatization in the Egyptian economy.

Till now the Egyptian private sector is not allowed to make use of German governmental loans to Egypt or from herms insurance to secure credit facilities for its imports from German suppliers. State owned companies and public authorities have always been the beneficiaries from the German aid and grants to Egypt especially in financing their imports of capital goods and complete plants. The impact of all the negative effects on the trend of German exports to Egypt were reduced considerably by

the growing number of new private sector industrial companies who are in need of advanced German technology, German precision machines and equipment as well as German materials and components.

3. *Structural of German Exports to Egypt*

Table 4 shows the structure of main German exports to Egypt in 1992. The change compared to 1991.

Products Sector Share Charge In Total Exports 1991	1992 %	%
Machinery	31.5	+32.6
Electro-technical products	15.3	+45.8
Chemical products	13.5	-19
Vehicles	12.5	+6.6
Iron & steel products	7.2	-35.3
Agricultural products & Foodstuffs	5.4	-22.2

The analysis of the structure of German exports shows the following:

A) The exports are mainly essential commodities to the Egyptian economy, they do not include luxurious consumables except passenger cars. The German exports play a key role in covering the needs of the modern Egyptian industry and its development.

B) The exports of the German capital goods increased contrary to the expectation to go down due to the increase in the rate of exchange of German Mark compared to many other currencies and the lack of herms insurance for the export credits risks to Egypt and all the other negative elements stated above.

Egyptian Exports to Germany

Germany occupied rank No. 8 among the ten biggest importers from Egypt in 1992 as it is clear from the following table:

Country	Value LE
Italy	1443,710
Israel	967,136
USA	955,159
Saudi Arabia	675,037
Netherlands	583,858
Singapore	482,468
France	431,119
FRG	423,132
UK	340,873
Rumania	310,869

The first was Italy with LE 1444 million, the second was Israel with LE 967 million. The Egyptian exports to Germany were LE 423 million in 1992.

2) The development of Egypt Exports to Germany

The development of such exports in DM during the period 1980-1992 is outlined in the following table:

Year	German Import
1980	387
1981	634
1982	1052
1983	767
1984	1365
1985	1576
1986	429
1987	550
1988	325
1989	526
1990	418
1991	447
1992	416

Value in Mil DM

Source: Federal Statistics Officer, Germany.

We can observe the following from the table:

a. On average, the annual Egyptian exports to Germany are within the range of DM 400 million to DM 600 million except in 1984 and 1985 when it was about three times of this average.

b. The average trend is downward, this is due to:
   - The deterioration of oil export prices;
   - the deterioration of Egypt's export of raw cotton and yarn
   - the decrease in quantities and items available for export in Egypt as a result of the increase in local consumption in Egypt and the increase of local prices quicker than the prices abroad especially in food and agricultural sectors;
   - lack of enough industrial products suitable for export to developed countries markets.

3. Egyptian Export Structure

The structure of Egyptian exports sold in the German market has been changing since five years. Traditional currency earners like raw materials are decreasing in terms of volume and value. They are replaced by new and mostly private business sectors like the agro-industry, the semi-finished and final industrial product such as the textile and garments, the food sector, leather and metal industries. The year-to-year analysis 1991/92 reveals the creation of new private companies with new products in the aforementioned fields trying to establish their export business. The Egyptian private sector export figures are still low quantity-wise, but expand in product variety. Traditional export industries of the public sector with enormous production potentials went through a variety of domestic restructuring processes in 1992 and face problems in adapting to the rapid changes experienced in most of the European products markets. Semi-finished industrial products today have a share of 50 percent in Egyptian exports to Germany, finished industrial products (pre-products and final products) about one third agricultural products 10 percent.

I believe that the public business sector factories have the capacity to play an important role in increasing Egyptian exports to developed countries in general and to Germany in particular if they act as sub-contractors to produce parts and components for the European industries, especially in the industries which need intensive labor.

If we review Egyptian export results 1991/92 by sector and product groups we find that agricultural products represent about 10 percent of Egyptian export earnings in Germany 1992: DM 44.4 million increasing by about 20 percent against 1991. Potatoes alone earned DM 20.8 million against DM 9.2 million 1991, vegetables DM 11.9 million in 1992/DM 9.4 million 1991. These two product groups had to compensate for the negative results in all agricultural product fields. Egyptian raw oil sales decreased from DM 68.9 million in 1991 (3,151.3 million DM) to only DM 2.0 million in 1992 (107.8 million DM), the raw material sector decreased proportionally to DM 13.9 million against DM 83.3 million in 1991, semi-finished industrial products nearly tripled in 1992 (DM 211.4 million) against 1991 (DM 77.1 million), representing approximately 50 percent of the Egyptian exports business with Germany in 1992. This result could be achieved in spite of losses in the field of cotton yarn exports (DM 66.1 million 1992 against DM 98.1 million 1991), still representing about 15 percent of the export total. Other positive factors were aluminum (DM 42.6 million 1992/DM 9.9 million 1991), as well as benzine, engine oil, gas (DM 69.6 million 1992/DM 33.5 million 1991).

In the industrial pre-products field representing about 14 percent of Egyptian exports total to Germany, a 10 percent increase was achieved from DM 50.9 million in 1991 to DM 57.8 million in 1992. Cotton fabrics sales decreased from DM 21.3 million in 1991 to DM 15.7 in 1992. Other fabric exports increased. Good results could also be seen within iron and metal products representing a sub group total of about DM 30 million in 1992. The final products sales on the German market decreased in value (DM 72.2 million 1992/DM 85.9 million 1991), but diversified in terms of product range, due to a more prominent presence of medium-sized private sector companies in this field on the German market. Ready made garments sales represent 13 percent of the total Egyptian exports to

Germany. The ready made garments exports decreased in value to DM 53 million in 1992 against DM 61 million in 1991. An analysis of the garments export data prove that the nominal decrease is due to the decrease in achieved exports prices, results in real terms being constant in 1991/92 year-to-year analysis and nominal as well as real losses in sales of non-knitted cotton garments (DM 13.2 million 1992/DM 19.1 million 1991).

German Investment in Egypt

Many people believe that foreign investment would be attracted to a country whose legislations grant to foreign investors tax exemptions, tax holidays, import and export facilities, protection from nationalization, exemption from national labor laws, freedom of transfer capital and profit outside the country, etc.

Egypt was one of those believers which offered generous legislations to foreign investors. The expectations were very positive and rosy because Egypt besides the generous investment legislations has other attractive privileges for foreign investors such as a big local market, availability of cheap labor and a lot of qualified cadres and technicians as well as a good geographical location.

In addition to all the positive factors which favor investment by foreigners in Egypt, there is a very essential point which is from the point of view of foreign investors as important or even in many cases more important than generous investment legislations and other stated positive elements, this essential and vital point is: "the investment environment" which comprises many elements such as:

1- Political, economic and social stability in the country;
2- existence of a clear and quick effective judicial and legal system in the country;
3- stability of laws and regulations in the country;
4- existence of strong effective capital and money markets;

5- existence of what is called traditions of work among the labor forces in the country such as loyalty to the enterprise, accuracy, punctuality, etc.;
6- availability of highly, qualified productive labor force and not only cheap labor;
7- strong effective bureaucratic system with full awareness of the importance of investment to the country;
8- the image of the country abroad especially in the foreign media.

After this short introduction about the essential factors which attract foreign investment to come to any country, let us ask ourselves whether Egypt realized its objectives regarding foreign investment after nearly two decades of the application of Law 42. A review of the statistics published in Egypt by the Egyptian Investment Authority on actual European and Arab investment in Egypt at the end of 1992 is essential in answering this question. The following table shows both Arab and European investment in Egypt.

EC Investment

Country	No. of Projects	Participation	Capital	Investment Costs
GB	107	357	1020	1594
Germany	78	213	767	1242
France	65	200	883	1365
Italy	50	105	560	1373
Luxembourg	39	188	1106	1420
Netherlands	25	80	359	675
Denmark	17	76	131	318
Greece	11	15	23	90
Belgium	10	8	43	48
Spain	9	15	34	64
Ireland		2		670

Arab Investment

Country	Investment	No. of Projects	Participation	Capital Costs
Kuwait	130	1326	3220	4471
Saudi Arabia	286	1324	5157	8500
Others	59	665	2049	3629
Libya	41	392	884	1745
Emirates	57	229	1268	1650
Lebanon	97	131	1048	1383
Jordan	100	108	944	1371
Bahrain	18	101	843	1124
Qatar	13	97	657	767
Yemen	22	49	277	418
Sudan	34	44	701	827
Syria	70	36	681	840
Palestine	45	21	614	710
Iraq	29	15	563	622
Oman	8	3	65	97
Tunis	4	1	4	9

The analysis of the figures stated above shows the following:

1- Arab investment had a share of more than 50 percent in the foreign investment volume in Egypt at the end of 1992, followed by EC investors (22 percent) and American investors (11 percent) actors in far East have not reached that level of engagement in Egypt and the Middle East in general.

2- The European capital invested in Egypt is still comparatively very modest when compared with Egyptian expectations. The total investment of all EC countries is LE 4949 million, whereas the Saudi investment alone is LE 5157 and the investment of a small Arab country like Kuwait is 3220. This means that the investment of EC

as a whole in Egypt is less than the investments of the Saudi Arabia alone and a little bit more than Kuwait.

3- Great Britain is the most active European investor in Egypt by number of projects, Germany follows on rank 3 on the European list with 78 projects at the end of 1992, close to Switzerland and France. Arab and US investors are the most important participants either in number of projects or invested capital and investment cost of the projects.
Two questions should be addressed here:

The first question: Why did Arab investments come to Egypt in a volume bigger than a giant economical power like EC?
The second question: Why is EC investment in Egypt less than expected?

There is no available studies to give us a concrete reply to these questions; a tentative reply for the first question.

a- Big capital surplus and very low investment changes inside the Arab countries having such surplus.
b- The language, the religion and similarity in social traditions and pre-experience in dealing with Egypt.
c- Location of Egypt near the Arab countries.
d- Problems that faced the Arab banks and Arab capital in Europe and USA in the last decades.
e- Fear from freezing capital or confiscation during any political crisis which may happen between their countries and the West in view of the Arab experience during crisis such as the Gulf war.

In a tentatively answering the second question, the following can be mentioned.

a- Competition from other investment opportunities in other investment markets which are more attractive than Egypt such as Eastern Europe, former DDR, Far East.
b- Better investment chances inside EC countries.
c- Defects and shortcomings in Egyptian investment legislations or investment environment in Egypt or both.

d- Lack of knowledge about investment changes, investment legislation and or investment environment in Egypt among potential European investors.

e- Other reasons such as language, traditions, etc.

All the above mentioned points are still not more than assumptions and should be subject to detailed studies and research to understand how to attract more European investment to Egypt.

If we look at German investment in Egypt we will find:

a- It began before other EC countries. The Hoechst Chemicals and Diversified Industries Giant Hoechst AG (Frankfurt) is one of a handful of German multinationals that has made the decision to establish a local base in Egypt. The company was among the very first to do so founding their first partnership for the production of pharmaceuticals Hoechst orient back in 1960 during the Nasserist era.

b- Nowadays, German investment in Egypt occupies the fourth rank in volume after UK, Luxembourg and France and the second in number of projects after UK.

c- German investment in Egypt is particularly active in the oil and gas industry, the chemical and electro-technical industry, 74 projects with German participation in capital are mentioned in the statistics of GAFI (General Authority for Investment), three of which are free zone operations. Germany is an investment partner in industry (39 projects), finance 7, agro-business 5, construction 8, and the service sector 12. The average German capital share in these operations is about 30 percent. The total investment cost amounts to LE 1.9 billion.

d- German direct investment in Egypt decreased during the period 1986-1990.

e- In 1991 new German projects capital transfer to Egypt increased from a very low result in 1990 (DM 8 million) to DM 68 million in 1991; projections o the basis of the first half year (DM 40 million) promise a further rise in transfer activity for 1992 statistics.

f- The biggest German direct investment involvement in Egypt came from the big German industrial companies, for example:

1- Hoechst AG (Frankfurt) with two joint ventures, the first was Hoechst Orient for the production of pharmaceuticals and chemicals in 1960 and the second is the Egyptian German company Dor Dyes and Resins (EG Codr) in which Hoechst has a 51 percent of the capital the remaining owned by the public sector. Together, the two Hoechst joint ventures employ nearly 1000 employees, in Egypt.

2- Siemens AG, first established the Egyptian German Electric Products Company (EGEMAC) together with the Ministry of Electricity to produce electricity distribution boards and then the Egyptian German Telecommunication Industries (EGIT) between Arento, its telefon company and Siemens in April 1990. This factory is being established in 6th of October city and will produce 200,000 line units annually starting mid of 1992. There are other examples of successful German companies in investment, they invested a comparatively small capital in the beginning in German Egyptian joint ventures and they grew quickly and the investment expanded through self finance within a short period examples include

Alfred Alwiller Pumps Co.
Bavaria for Fire Extinguisher
Chemicals for Modern Buildings
Sekim Company for Medical Herbs

Deminex German Petroleum Company is active in oil production in Egypt since more than 15 years through their subsidiary company Deminex Egypt which is active in the production of petroleum from Ras Badran, Ras Fanar and Zeit Bay oil fields.

DEG German Investment and Development Company, which is a German state owned company acting for the promotion of direct German investment is active in Egypt through direct investment in many small and medium size German Egyptian joint ventures, as well as in promoting investment in Egypt in a cooperation with EC; the German Arab Chamber

of Commerce in Egypt and the Egyptian Investment Authority through a program called European Egyptian Investment Promotion Program which is financed by the EC.

The extent of German involvement in direct investment in Egypt becomes clearer if we review the following table which shows German direct investment abroad by country and rank from 1980 to 1989.

	1980-1989			1980-1984		
Rank	Country	Inves.	%	Country	Inves.	%
1	USA	51.538	41.1	USA	16.064	36.0
2	UK	14.380	11.5	Belgium/Luxembourg	3.895	8.7
3	Belgium/Luxembourg	7.648	6.1	UK	3.666	8.2
4	France	6.572	5.2	Brazil	2.356	5.3
5	Spain	5.188	4.1	France	2.257	5.1
6	Italy	5.157	4.1	Switzerland	2.043	4.6
7	Netherlands	5.129	4.1	Spain	1.605	3.6
8	Switzerland	3.650	2.9	Canada	1.477	3.3
9	Canada	3.358	2.7	Mexico	1.138	2.5
10	Brazil	2.664	2.1	Italy	1.017	2.3
11	Austria	2.193	1.7	Egypt	955.0	2.1
12	Mexico	1.599	1.3	Argentina	834.0	1.9
13	Australia	1.552	1.2	Austria	748.0	1.7
14	Norway	1.501	1.2	Australia	700.0	1.6
15	Japan	1.499	1.2	Japan	645.0	1.4
16	Argentina	1.389	1.1	Netherlands	615.0	1.4
17	Ireland	1.212	1.0	South Africa	582.0	1.3
18	South Africa	906	0.7	Caimanisl	499.0	1.1
19	Hong Kong	900	0.7	Denmark	347.0	0.8
20	Egypt	653	0.5	Singapore	305.0	0.7

The final question I would like to address is: Why and when does Germany invest abroad?

According to the Federation of Germany Chambers of Commerce and Industry and the Institut Der Wirtschaft, export-oriented German companies are more investment oriented. German foreign investors build their investment projects on their own export markets and experience.

Sectors with a high degree of research show a higher tendency for foreign investment, thus making better international profit on patents and technical know how. Where license agreements and export business become non-appropriate, direct investment is the alternative to strengthen the market position and to develop individual strategies to foreign market dynamics. Of course, the size of the investor company is a major element in foreign investment decisions. Companies employing more than 10,000 people can produce abroad. The probability to invest abroad amounts to 35 percent only in case of a company with export experience and a medium research intensity employing only 100 persons. Smaller companies usually cannot afford to invest in an own business structure in foreign markets.

ANNEX 1

SEMINAR PROGRAM

Annex 1

Seminar Program

Wednesday 6th of October

05:30 - 06:00	***Opening Session***
06:00 - 08:00	***First Session***

Chairman: Dr. Hamdi Saleh
Director, Department for Cooperation with Research Centers,
Ministry of Foreign Affairs

"EC and Maastricht: Problems and Prospects"

Working Paper by: Dr. Eberhard Rhein
Director at the Commission of the European Communities, Brussels

Presented by: Mr. Daniel Giuglaris
Economic Advisor, Deputy Head of Mission
Commission of the European Communities,
Cairo

Commentator: Dr. Abdel Moneim Said
Vice Director, Center for Political and Strategic Studies, Al-Ahram

"EC and the European Regional Systems"

Speaker: Dr. Moustapha K. El Sayyid
Professor, Department of political Science,
Cairo University

Commentator: Dr. Mohamed Said
Center for Political and Strategic Studies, Al-Ahram

Thursday 7th of October

09:30 - 11:30 *Second Session*

Chairman: Prof. Friedemann Buettner
Free University, Berlin
Visiting Professor, Cairo University

"German Role within EC"

Speaker: Dr. Guntram von Schenck
Resident Representative of the Friedrich
Ebert Foundation, Cairo

Commentator: Amb. Ahmed Tawfik Khalil
Former Ambassador

"The EC, the USA and Japan"

Speaker: Prof. Hala Seoudi
Faculty of Economics and Political Science,
Cairo University

Commentator: Dr. Abdel Moneim Said
Vice Director, Center for Political and
Strategic Studies, Al-Ahram

11:30 - 12:00 COFFEE BREAK

12:00 - 2:00 *Third Session*

Chairman: Prof. Nazli Moawad
Faculty of Economics and Political
Science,Cairo University

"The EC and the Southern Mediterranean"

Working Paper by: Prof. Moustafa Elwi
Professor, Department of Political Science,Cairo University

Presented by: Dr. Wadouda Badran
Department of Political Science, Cairo University

Commentator: Dr. Mohamed Said
Center for Political and Strategic Studies, Al-Ahram

"The EC, and the Arab-Israeli Process

Speaker: Prof. Abdel Moneim El Mashat
Faculty of Economics and Political Science
Cairo University

Commentator: Prof. Ahmed Youssef
Prof. of Department of Political Science
Cairo University

02:00 - 05:30 LUNCH BREAK

05:30 - 07:30 ***Fourth Session***

Chairman: General Ahmed Abdel Haleem
National Center for Middle East Studies

"The EC and Gulf Security"

Speaker: Prof. Ahmed Youssef
Prof. of Department of Political Science,
Cairo University

Commentator: Dr. Moustapha K. El Sayyid
Professor, Department of Political Science,
Cairo University

"The Political Economy of EC Relations with the Gulf States"

Speaker: Prof. Saleh Al Mahy
Chairman of the Political Science Department
Faculty of Administrative Sciences,
King Saoud University
Riyadh (Saudi Arabia)

Commentator: Mr. Essam Refaat
Editor-in-Chief, Al-Ahram al-Iktissady

Friday 8th of October

09:00 - 11:00 ***Fifth Session***

Chairman: Dr. Mohamed Aboul Enein
Chairman, Cairo Regional Center for
International Commercial Arbitration

"Egyptian-German Relation: Trade and Investment"

Speaker: Mr. Azer Farag Azer
Consultant, German Arab Chamber of
Commerce, Cairo

Commentator: Dr. Rushdy Barakat
Commercial Representation,
Ministry of Economy

	"Egyptian-German Relation: Aid"
	Speaker: Dr. Khalda Shadi Faculty of Economics and Political Science, Cairo University
	Commentator: Dr. Salwa Gomaa Center of Social Research - AUC, Cairo
11:00 - 01:30	**Concluding remarks**

ANNEX 2

LIST OF PARTICIPANTS

Annex 2

List of Participants

DR. SALEH AL-MAHY, Associate Professor, Department of Politics, King Saoud University

DR. MUSTAPHA K. AL-SAYYID, Professor, Department of Political Science, Cairo University

MR. TAREK ATTEYA, Al-Ahram Weekly

MR. AZER FARAG AZER, Consultant, German Arab Chamber of Commerce,Cairo

DR. WADOUDA BADRAN, Professor, Department of Political Science, Cairo University

PROF. DR. FRIEDEMANN BUETTNER, Free University, Berlin, Visiting Professor, Cairo University

DR. ALI E. HILLAL DESSOUKI, Director, Center for Political Research and Studies, Cairo University

DR. ABDEL MONEIM EL-MASHAT, Professor, Department of Political Science, Cairo University

MR. DANIEL GIUGLARIS, Economic Advisor, Deputy Head of Mission, Commission of the European Communities, Cairo

MR. STEPHANE GOMPERTZ, 1. Counsellor, French Embassy

MR. ALAN GOULTY, Counsellor, Deputy Head of Mission, British Embassy

DR. KHALED FAHMY, Friedrich-Ebert-Foundation

MS. DINA RASHED, Faculty of Economics and Political Science, Cairo University

DR. HALA SEOUDI, Professor, Department of Political Science, Cairo University

DR. KHALDA SHADI, Assistant Professor, Department of Political Science, Cairo University

MS. EBTESSAM SOHEIL, Emirates University

MR. ACHIM VOGT, Friedrich-Ebert-Foundation

DR. GUNTRAM VON SCHENCK, Resident Representative, Friedrich-Ebert-Foundation

DR. AHMED YOUSSEF, Professor, Department of Political Science, Cairo University

DR. DIETER ZEISLER, Minister Counsellor, German Embassy, Cairo

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MR. MOHAMED EL-MAGHRABY, Center for Political Research Studies, Cairo University

MR. MAHMOUD DARWISH, Sound Technician